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Notes to the Financial Statements

June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

B. Reporting Entity

For financial reporting purposes, the Commonwealth of Virginia's (the "Commonwealth's") reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable (blended component units), and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government (discrete component units). The funds of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included.

Section 2100 of the *GASB Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification) describes the criteria for determining which organizations, functions, and activities should be considered part of the Commonwealth for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body, and the Commonwealth's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

- (1) **Primary Government** – A primary government consists of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, and departments are, for financial reporting purposes, part of the primary government.
- (2) **Blended Component Units** – Though legally separate entities, these component units are, in substance, part of the primary government's operations. The blended component unit serves or benefits the primary government almost exclusively. Financial information from these units is combined with that of the primary government. Blended component units are:

Pocahontas Parkway Association (Major Enterprise Fund) – The Association, a private, non-stock, nonprofit corporation was created to develop, construct, and provide financing for the Route 895 Connector Project. The Association is a blended component unit of the Department of Transportation (Primary Government) because it is fiscally dependent on the primary government and provides services entirely to the benefit of the Commonwealth. Ernst & Young, LLP audited the Association, and a separate report is available from the Association, Post Office Box 35033, Richmond, Virginia 23235.

Virginia Historic Preservation Foundation (Nonmajor Special Revenue Fund) – The Foundation was created as a body politic and corporate to serve the Department of Historic Resources (Primary Government) by acquiring and holding properties of historical significance. The Governor appoints the seven-member board, and the primary government is able to impose its will on the Foundation. The Director of the Department of Historic Resources is the Executive Director and controls all administrative duties of the Foundation. A trust agreement between the Board of Trustees of the Foundation, the Department of Historic Resources and the Association for the Preservation of Virginia Antiquities was made as of July 1, 1999. According to the trust agreement, the Foundation transferred the assets to the Association, until January 1, 2003, at which time the agreement may be terminated. The Association's activity is not reported in the accompanying financial statements. The administrative offices of the Foundation are located at 10 Courthouse Avenue, Petersburg, Virginia 23803. The Auditor of Public Accounts audits the Foundation as part of the Department of Historic Resources and discloses its existence in that report. On January 1, 2003, the Foundation was dissolved, and the Foundation's assets became the property of the Department of Historic Resources in accordance with Section 2404.2 of the *Code of Virginia*.

Virginia State Parks Foundation (Nonmajor Special Revenue Fund) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (Primary Government) in the duties and responsibilities described in Subtitle I of Title 10.1 of the *Code of Virginia*. The Governor appoints the 7-member board, and the primary government is able to impose its will on the Foundation. The administrative offices of the Foundation are located at 203 Governor Street, Suite 402, Richmond, Virginia

23219. The Auditor of Public Accounts audits the Foundation as part of the Department of Conservation and Recreation and discloses its existence in that report.

Virginia Public Building Authority (VPBA) (Nonmajor Governmental Funds) – The Authority was created as a body politic and corporate and is fiscally independent. A government instrumentality, the Authority finances the acquisition and construction of buildings for the use of the Commonwealth and other approved purposes. The Governor appoints the seven-member board, and the primary government is able to impose its will on the Authority. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218.

Virginia Land Conservation Foundation (VLCF) (Nonmajor Special Revenue Fund) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (Primary Government) by acquiring interests in preservation land and providing grants to other entities to acquire interests in preservation land. The Governor appoints the 18-member board, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 203 Governor Street, Suite 402, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation as part of the Department of Conservation and Recreation and discloses its existence in that report.

Virginia Arts Foundation (Nonmajor Permanent Fund) – The Foundation was created as a body politic and corporate to serve the Virginia Commission for the Arts (Primary Government) by promoting the arts in the Commonwealth. The Governor appoints the Board of Trustees for the Virginia Commission for the Arts, which also serves as the Board for the Virginia Arts Foundation. The Director of the Virginia Commission for the Arts serves as the Board chairman. In addition, the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 223 Governor Street, Richmond, VA 23219. The Auditor of Public Accounts audits the foundation as part of the Virginia Commission for the Arts.

- (3) **Discrete Component Units** – Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial

statements to be misleading or incomplete. These discrete component units serve or benefit those outside of the primary government. Discretely presented component units are:

Higher Education Institutions – The Commonwealth's higher education institutions are granted broad corporate powers by State statutes. The Governor appoints the members of each institution's Board of Trustees. In addition to the annual appropriations to support the institutions' operations, the State provides funding for, and construction of, major academic plant facilities for the institutions. Therefore, there is a financial benefit/burden to the primary government. The bonds issued to finance the construction of these facilities are obligations of the State. The major Higher Education Institutions are: University of Virginia, including the University of Virginia Hospital and the University of Virginia's College at Wise (formerly reported as Clinch Valley College); Virginia Polytechnic Institute and State University; and Virginia Commonwealth University, including the Virginia Commonwealth University Health System Authority (formerly reported as MCV Health Systems Authority). The nonmajor Higher Education Institutions are: the College of William & Mary, including Richard Bland College and the Virginia Institute of Marine Science; Virginia Military Institute; Virginia State University; Norfolk State University; Mary Washington College; James Madison University; Radford University; Old Dominion University; George Mason University; Virginia Community College System; Christopher Newport University; and Longwood University. The Southwest Virginia Higher Education Center and the Roanoke Higher Education Authority are also included as nonmajor higher education institutions. The colleges and universities are funded through State appropriations, tuition, Federal grants, and private donations and grants. With the exception of the Virginia Commonwealth University Health System Authority, which is audited by Ernst & Young, LLP, the Auditor of Public Accounts audits the colleges and universities, and individual reports are issued under separate cover.

Complete financial statements for each institution may be obtained from their respective administrative offices. The addresses for these institutions may be obtained from the Virginia Department of Accounts, 101 North 14th Street, Richmond, Virginia 23219.

Virginia Housing Development Authority (VHDA) (Major) – The Authority was created as a political subdivision and instrumentality of the Commonwealth and is granted both political and corporate powers by the *Code of Virginia*. The Governor appoints a majority of

the Authority's board members. The Commonwealth may make grants to the Authority including, but not limited to, reserve funds, which is a potential financial benefit/burden to the primary government. The State is not obligated by the debt of the Authority. The Authority was created in the public interest to provide investment in and stimulate construction of low to moderate income housing which benefits the citizens of the Commonwealth. The administrative offices of the Authority are located at 601 South Belvidere Street, Richmond, Virginia 23220. KPMG, LLP audited the Authority, and a separate report is available.

Virginia Public School Authority (VPSA) (Major) – The Authority was created as a public body corporate, and an agency and instrumentality of the Commonwealth to finance capital projects of city and county school boards. The Governor appoints the board members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. Additionally, the Authority receives Literary Fund notes transferred from the State to secure bonds issued by the Authority. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218.

Virginia Economic Development Partnership (VEDP) (Nonmajor) – The Partnership was created as a body corporate and operates to encourage, stimulate, and support the development and expansion of commerce in the Commonwealth. The Governor appoints the 15-member board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Partnership, and a separate report is issued.

Virginia Outdoors Foundation (Nonmajor) – The Foundation was created as a body politic and is administratively assigned to the Department of Conservation and Recreation (Primary Government) and charged with promoting preservation through the acceptance of donated conservation easements and raising funds for the purchase of preservation land. The Governor appoints the seven-member Board of Trustees, and the primary government can impose its will on the Foundation. The Foundation is reported as a Discrete Component Unit because it uses a GAAP reporting model other than the governmental model. The administrative offices of the Foundation are located at 302 Royal Lane, Blacksburg, Virginia 24060. The Auditor of Public Accounts audits the Foundation as part of the Department of

Conservation and Recreation and discloses its existence in that report.

Virginia Port Authority (VPA) (Nonmajor) – The Authority was established as a corporate body and operates to serve the citizens and promote commerce. The Governor appoints a majority of the 12-member board, and the primary government is able to impose its will on the Authority. There is also a financial benefit/burden to the primary government. The administrative offices of the Authority are located at 600 World Trade Center, Norfolk, Virginia 23510. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Resources Authority (VRA) (Nonmajor) – The Authority was created as a public body corporate, and operates as a political subdivision of the Commonwealth to provide financing for the construction of local water supply, wastewater, and solid waste treatment, airport, public safety, and brownfields redemption. The Governor appoints a majority of the 11-member board and the Executive Director of the Authority. The primary government is able to impose its will on the Authority, and there is a financial benefit/burden to the primary government. The Commonwealth does not guarantee any bonds issued by the Virginia Resources Authority. The administrative offices of the Authority are located at 707 East Main Street, Suite 1350, Richmond, Virginia 23219. KPMG, LLP audited the Authority, and a separate report is available.

Virginia Tourism Authority (Nonmajor) – The Authority was created as a public body corporate and as a political subdivision of the Commonwealth. The Authority encourages, stimulates, and promotes tourism and film production industries of the Commonwealth. The Governor appoints all of the board members, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, Nineteenth Floor, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Tobacco Settlement Foundation (Nonmajor) – The Foundation was created as a body corporate and as a political subdivision of the Commonwealth. The Foundation was established to determine the appropriate recipients of moneys in the Virginia Tobacco Settlement Fund and to distribute moneys in this fund for such efforts as restricting the use of tobacco products by minors and the enforcement of laws restricting the distribution of tobacco products to minors. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are

located at 701 East Franklin Street, Fifth Floor, Richmond, Virginia, 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Tobacco Indemnification and Community Revitalization Commission (Nonmajor) – The Commission was created as a body corporate and as a political subdivision of the Commonwealth. The Commission was established to determine the appropriate recipients of the moneys in the Tobacco Indemnification and Community Revitalization Fund. This fund is to provide payments to tobacco farmers as compensation for the adverse economic effects resulting from loss of investment in specialized tobacco equipment and barns, and lost tobacco production opportunities. It also provides monies to revitalize tobacco dependent communities. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, Suite 501, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Commission, and a separate report is issued.

Hampton Roads Sanitation District Commission (Nonmajor) – The Commission was established as a political subdivision of the Commonwealth and a government instrumentality. The Commission, which is the governing Board of the District, was granted corporate powers by the *Code of Virginia*. The Governor appoints the Commission members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Commission. The Commonwealth is not obligated by the debt of the Commission. The Commission was established to benefit the inhabitants of the District and operates a sewage system for 17 localities in the Chesapeake Bay area. The address for the administrative offices of the Commission is 1436 Air Rail Ave, P.O. Box 5915, Virginia Beach, Virginia 23471. KPMG, LLP, audited the Commission, and a separate report is available.

Virginia Biotechnology Research Park Authority (Nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in the development of a biotechnology research park. The Governor and General Assembly appoint the board members of the Authority, and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at 800 East Leigh Street, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Small Business Financing Authority (SBFA) (Nonmajor) – The Virginia Small Business

Financing Act of 1984 (Chapter 28, Title 9, *Code of Virginia*) established the Authority as a public body corporate and a political subdivision of the Commonwealth. The Governor appoints the 10-member board, and the primary government is able to impose its will on the Authority. The Authority was created to assist small businesses in the Commonwealth in obtaining financing for new businesses or the expansion of existing businesses. The Authority can provide financial assistance to small businesses by providing loans, guarantees, insurance, and other assistance, thereby encouraging the investment of private capital in small businesses in the Commonwealth. Also, the Authority guarantees loans made to small businesses by banks. The administrative offices of the Authority are located at 707 East Main Street, Suite 300, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Schools for the Deaf and Blind Foundation (Nonmajor) – The Foundation operates as a non-private educational and fund raising organization solely in connection with, and exclusively for the benefit of the Virginia School for the Deaf and Blind at Staunton (Primary Government) and the Virginia School for the Deaf, Blind and Multi-Disabled at Hampton (Primary Government), and within the jurisdiction and management of the Virginia Board of Education. The Foundation is reported as a Discrete Component Unit because it uses a cash basis reporting model other than the governmental reporting model. The Foundation uses a December 31 calendar year end. The administrative offices of the Foundation are located at the Virginia Department of Education, 101 North 14th Street, Richmond, Virginia, 23219. The Auditor of Public Accounts audits the Foundation along with the audit of the Department of Education, and a separate report is issued.

A. L. Philpott Manufacturing Extension Partnership (Nonmajor) – The Partnership has the mission to foster economic growth by enhancing the competitiveness of Virginia's manufactures. The Partnership provides manufacturing firms with fee-based technology consulting services, access to business modernization resources, and support for interfirm collaboration. Further, the Partnership provides direct assistance to increase sales, decrease costs, and improve quality, productivity, and competitiveness. The Partnership has a 23-member Board of Trustees. The Board consists of the presidents of two public four-year institution of higher education; three community college presidents; the director of Virginia's Center for Innovative Technology; Virginia's Secretary of Commerce and Trade; and fifteen citizen members, representing manufacturing industries, appointed by the Governor. There is also a

financial benefit/burden to the primary government. The administrative office is located at Patrick Henry Community College, 645 Patriot Avenue, P.O. Box 5311, Martinsville, Virginia 24115. The Auditor of Public Accounts audits the Partnership, and a separate report is issued.

Virginia Equine Center Foundation (Nonmajor) – The Foundation was created as a body politic and corporate, and operates the Equine Center for the benefit of the equine and tourism industries. In 1994, the Commonwealth began making grant payments to the Equine Center Foundation to keep the Center from falling into default on its debt. The Governor appoints a majority of the 11-member board, and there is a financial benefit/burden to the primary government. The address for the administrative offices of the Foundation is Post Office Box 1051, Lexington, Virginia 24450. The accounting firm of William White, Sr., CPA audited the Foundation, and a separate report is available.

Certified Nursing Facility Education Initiative (Nonmajor) – The Initiative was created as a nonprofit corporation by the *Code of Virginia* to assist the Department of Medical Assistance Services. The Initiative provides early on-site training and assistance to certified nursing facilities to improve quality of care and life to certified nursing facility residents. The Initiative is reported as a Discrete Component Unit because it uses an accrual basis reporting model other than the governmental reporting model. The administrative offices of the Initiative are located at Post Office Box 465, Orange, Virginia 22960. Walker Healthcare Services Group audited the Initiative, and a separate report is available.

Innovative Technology Authority (ITA) (Nonmajor) – The Authority is granted corporate powers by the *Code of Virginia*. The Authority serves to facilitate the marketing, organization, and development of scientific research and technology by the State's institutions of higher education and private industry in the Commonwealth. The Governor appoints the 16-member board, and there is a financial benefit/burden to the primary government. The Authority's combined financial statements include the accounts of the Center for Innovative Technology (CIT) after elimination of all significant intercompany balances and transactions. CIT is a nonstock, not-for-profit corporation, which acts as the operating arm of the Authority. The address for the administrative offices of the Authority is CIT Building, Suite 600, 2114 Rock Hill Road, Herndon, Virginia 22070. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia College Building Authority (VCBA) (Nonmajor) – The Authority was created as a

public body corporate, a political subdivision, and an agency and instrumentality of the Commonwealth. The Governor appoints a majority of the board and members serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Authority finances certain capital projects and equipment purchases of State-supported colleges and universities. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218.

Only the activity of the Authority that relates to the financing of capital projects and equipment purchases by State-supported colleges and universities is included in the financial statements. The Authority assists private institutions of higher education in the financing and refinancing of a broad range of facilities. The Authority is authorized to issue obligations and lend the proceeds to private institutions; however, such financings or refinancings are not obligations of the Commonwealth nor the Authority, but are payable solely from the revenues pledged by the respective private institution. This indebtedness, totaling \$363.5 million, is not included in the financial statements.

- (4) **Related Organizations** – Organizations for which a primary government is accountable because that government appoints a majority of the Board, but is not financially accountable, are related organizations. Related organizations are:

Virginia Recreational Facilities Authority – The Authority was created as a political subdivision and instrumentality of the Commonwealth and given separate corporate powers by the *Code of Virginia*. The Governor appoints the 13-member board of directors. The Authority operates educational programs, tourism, and commerce in the Roanoke Valley. The address for the administrative offices of the Authority is 3900 Rutrough Road, Roanoke, Virginia 24014. Foti, Flynn, Lowen and Company audited the Authority, and a separate report is available.

Miller School of Albemarle – The School was created through the will of Samuel Miller of Lynchburg to provide a quality education for poor and orphaned children in central Virginia. Initially, the Commonwealth was charged with oversight of the Miller Trust Fund, which supported the School. The Governor still appoints one-third of the board. The administrative offices of the School are located at 1000 Samuel Miller Loop, Charlottesville, Virginia 22903. Joseph J. Saunders, III, CPA, Inc. audited the school, and a separate report is available.

Jamestown-Yorktown Educational Trust – The Trust was created as a nonprofit

corporation by the *Code of Virginia* to assist the Jamestown-Yorktown Foundation (Foundation). The Trust Board consists of six members selected from the Foundation's Board of Trustees. Several Commonwealth officials serve as ex-officio members of the Foundation's Board, and the Governor appoints twelve members. The Trust operates the Jamestown Settlement and Yorktown Victory Centers' gift shops and café, oversees investments, and sponsors events. The address for the administrative offices of the Trust is P.O. Box 3605, Williamsburg, Virginia 23187. Goodman and Company, LLP audited the Trust, and a separate report is available.

Virginia Birth-Related Neurological Injury Compensation Program – The Program was created to provide a no-fault alternative for birth-related neurological injuries. The Governor appoints the 7-member board. The administrative offices of the Program are located at 9100 Arboretum Parkway Suite 365, Richmond, Virginia 23236. Cherry, Bekaert, & Holland audited the Program, and a separate report is available.

Chesapeake Bay Bridge and Tunnel Commission – The Commission was created to establish policy and administer operations of the Chesapeake Bay Bridge Tunnel District. Any of the 11 members of the Commission appointed or reappointed on or after July 1, 1998, shall be appointed by the Governor, subject to confirmation by each house of the General Assembly. The administrative offices of the Commission are located at Post Office Box 111, 32386 Lankford Highway, Cape Charles, Virginia 23310. KPMG, LLP, audited the Commission and a separate report is available.

Virginia Information Providers Network Authority (VIPNET) – The Authority was created as a political subdivision of the Commonwealth to provide for the centralized marketing, provision, leasing or executing of license agreements for access on-line or in volume. The Governor appoints the 11-member board of directors. The administrative offices of the Authority are located at 110 South 7th Street Suite 135, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority and a separate report is issued.

C. Government-wide and Fund Financial Statements

The government-wide financial statements, the Statement of Net Assets and the Statement of Activities, report information on all nonfiduciary activities of the primary government and component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on

fees and charges for support. Also, the primary government activity is reported separately from the legally separate component units for which the Commonwealth is financially accountable.

The Statement of Activities demonstrates the degree to which direct expenses of a specific function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit, as well as investment income generated by operations. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items properly excluded from program revenues are reported instead as general revenues.

Net assets are restricted when constraints are placed on them that are imposed by external parties or constitutional provisions. Designations solely imposed by the Commonwealth's management are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, the Commonwealth's policy is to use the restricted resources first. Some institutions of higher education may follow a different policy.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and major component units. However, fiduciary funds are not included in the government-wide statements. Major governmental funds, enterprise funds, and component units are reported as separate columns in the fund financial statements, with nonmajor funds being aggregated into a single column.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon

enough thereafter to pay liabilities of the current period. For this purpose, the Commonwealth considers revenues to be available if they are collected within 60 days of the end of the current fiscal year (or one year for Medicaid). Significant revenues subject to accrual include Federal grants and income and sales taxes. Income tax revenues for tax underpayments are only recognized to the extent of the Commonwealth's estimated refunds for tax overpayments received. Revenues that the Commonwealth earns by incurring obligations are recognized in the same period as when the obligations are recognized.

Expenditures generally are recorded when a liability is incurred, as under full accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when the payment is due.

The Commonwealth reports the following major governmental funds:

General Fund – Accounts for the transactions related to resources received and used for those services traditionally provided by a State government, which are not accounted for in any other fund. These services include general government, legislative and judicial activities, public safety, health and mental health programs, resources and economic development, licensing and regulation, and primary and secondary education.

Commonwealth Transportation Special Revenue Fund – Accounts for the revenues and expenditures associated with highway operations, maintenance, construction, and other transportation related activities. Funding for these programs is received from highway user taxes, fees, and funds received from the Federal government.

Federal Trust Special Revenue Fund – Accounts for all federal dollars received by the Commonwealth except those received by the Commonwealth Transportation Fund, the Unemployment Compensation Fund, and institutions of higher education. In addition, federal funds received from Medicaid intergovernmental transfers are reported in the Other – Special Revenue Fund.

Literary Fund Special Revenue Fund – Accounts for revenues from fines, forfeitures, and proceeds from unclaimed property used primarily to support public education in the Commonwealth. This fund provides low interest loans to school divisions for construction, renovations, and expansion of school buildings.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements – The financial statements of the proprietary funds, fiduciary funds, and component units are reported using the economic resources measurement focus

and the full accrual basis of accounting. As with the government-wide statements, revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating.

GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, provides governments two options for reporting their enterprise funds (including component units reporting as business-type activities). All enterprise funds reported herein, with the exception of the Pocahontas Parkway (Major Enterprise Fund), the Virginia Port Authority (Nonmajor Component Unit), the A. L. Philpott Manufacturing Extension Partnership (Nonmajor Component Unit), the Mary Washington College (Nonmajor Component Unit), the Roanoke Higher Education Authority (Nonmajor Component Unit), and the Innovative Technology Authority (Nonmajor Component Unit) apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The Pocahontas Parkway (Major Enterprise Fund), the Virginia Port Authority (Nonmajor Component Unit), the A. L. Philpott Manufacturing Extension Partnership (Nonmajor Component Unit), the Mary Washington College (Nonmajor Component Unit), the Roanoke Higher Education Authority (Nonmajor Component Unit), and the Innovative Technology Authority (Nonmajor Component Unit) apply all of these pronouncements, and also apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

The Commonwealth reports the following major enterprise funds:

State Lottery Fund – Accounts for all receipts and expenses of the State Lottery.

Virginia College Savings Plan Fund – Administers the Virginia Prepaid Education Program.

Pocahontas Parkway Fund – Accounts for the Route 895 Connector Project. The Pocahontas Parkway Association is a blended component unit of the Department of Transportation (Primary Government).

Unemployment Compensation Fund – Accounts for receipts from employers and expenses incurred to provide benefits to eligible unemployed workers.

Additionally, the Commonwealth reports the following fund types:

Governmental Fund Types:

Special Revenue Funds – Account for transactions related to resources received and used for restricted or specific purposes. Examples include conservation, health care, public building construction, acquisition, and operation, and other miscellaneous activity.

Debt Service Funds – Account for transactions related to resources retained and used for the payment of interest and principal on long-term obligations.

Capital Project Funds – Account for transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental or proprietary funds. The primary resource for these funds is the proceeds of bond issues. Principal uses are for construction and improvement of State office buildings, correctional and mental health facilities, and parks.

Permanent Funds – Account for transactions of the Commonwealth Health Research Fund, Virginia Arts Foundation Fund, and Mental Health Endowment Funds whose principal must be maintained intact and whose income is used to benefit the Commonwealth's citizens and mental health patients.

Proprietary Fund Types:

Enterprise Funds – Account for transactions related to resources received and used for financing self-supporting activities of the Commonwealth that offer products and services on a user-charge basis to external users.

Internal Service Funds – Account for transactions related to the financing and sale of goods or services provided by the agencies of the Commonwealth to other agencies and institutions of the Commonwealth. Activities include the provision of information technology, manufacturing activities, insurance programs, fleet services, facilities and property management, and engineering services.

Fiduciary Fund Types:

Private Purpose Trust Funds – Account for transactions of all other trust arrangements in which the principal and income benefit individuals, private organizations, or other governments. These trusts include those for

escheat property, educational savings plans, and others.

Pension Trust Funds – Account for transactions of the Commonwealth administered retirement systems and other employment benefits.

Investment Trust Funds – Account for the external portions of the State Non-Arbitrage Program and Local Government Investment Pools that are sponsored by the Commonwealth.

Agency Funds – Account for amounts held in trust by the Commonwealth for others. Agency funds include those funds established to account for the collection of taxes and fees for distribution to localities and other states, employee benefits, deposits of insurance carriers, child support collections and other miscellaneous accounts.

E. Budgetary Process

Budgetary amounts shown in the Required Supplementary Information and Combining and Individual Fund Statements Sections represent the total of the original budgeted amounts and all supplemental appropriations. The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the *Code of Virginia*, submits a budget composed of all proposed expenditures for the State, and of estimated revenues and borrowing for a biennium, to the General Assembly. Budgets are adopted for the General and Special Revenue Funds, except for the Literary (major) and State Parks Foundation (nonmajor) – Special Revenue Funds. Formal budgetary integration is not employed for the Capital Projects (nonmajor), Debt Service (nonmajor), Permanent Funds (nonmajor), the Literary – Special Revenue (major), and State Parks Foundation – Special Revenue (nonmajor) Funds because effective budgetary control is alternatively achieved through the General Fund and the remaining Special Revenue Funds.

The budget is prepared on a biennial basis; however, the budgets of the General and Special Revenue Funds contain separate appropriations for each year within the biennial budget, as approved by the General Assembly and signed into law by the Governor. For management control purposes, the budget is controlled at the program level. The Governor may transfer an appropriation within a State agency or from one State agency to another, provided that total fund appropriations, as contained within the budget, are not exceeded. Increases in General Fund appropriations must be approved by the General Assembly.

Appropriations for programs funded from Special Revenue Funds may allow expenditures in excess

of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations.

F. Cash, Cash Equivalents, and Investments

Cash

In order to maximize the Commonwealth's earning potential, the majority of the Primary Government's cash balances are pooled together in the general account for investment purposes. The amounts required for operations are liquidated as needed. Since all amounts not required for operations are held in investment securities, it is possible that the cash balances could be negative due to timing differences in liquidating the investments.

As of June 30, 2003, the General Fund had a negative cash balance of \$2.8 billion. In order to properly reflect the general account position, this negative cash balance has been eliminated in the accompanying statements and offset against the Primary Government's cash equivalents and investments (see Note 4).

Cash Equivalents

Cash equivalents are investments with an original maturity of three months or less.

Investments

Investments are principally comprised of monies held by component units, Pension Trust Funds, and monies held by the State Treasurer in both the general account and other fiduciary accounts.

Governmental and proprietary funds, both primary government and component units, report investments in money market and in the Commonwealth sponsored investment pools at amortized cost. All other investments are reported at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Investments administered by the Virginia Retirement System (VRS) are reported at fair value. The cost of investments sold is the average cost of the aggregate holding of the specific investment sold. Investments in affiliated organizations are accounted for on the equity method of accounting and the VRS' share of their earnings (losses) for the period is included in investment income using the equity method.

Investments of higher education institutions (Component Unit) are reported at fair value, except for money market investments and investments in the Commonwealth sponsored investment pools, which are reported at amortized cost.

Derivatives

Derivative instruments are used to improve return on investments and modify risk exposures (see Note 4).

G. Receivables

Receivables in the governmental funds consist primarily of the accrual of taxes, as well as Federal revenue and receivables of the Commonwealth's Medicaid program. Receivables in the Proprietary Funds consist primarily of tuition benefits payable. Receivables of Fiduciary Funds are primarily the accrual of member and employer contributions in the Pension Trust Funds and the accrual of local sales taxes in the Agency Funds. Receivables of the Component Units consist primarily of mortgage receivables, loans receivable, patient receivables, and student receivables. Receivables are recorded net of allowances for doubtful accounts (see Note 5).

H. Internal Balances

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

I. Inventory

Inventories consist of materials and supplies and are reported as expenditures when consumed. These assets are offset by a fund balance reserve that indicates they are not available for spending. Inventories exceeding \$1 million of the General and the Special Revenue Funds are maintained at cost using the first-in, first-out (FIFO) methodology, except for the following:

- Department of State Police (VSP)
- Virginia Department of Transportation (VDOT)
- Department of Health (VDH)

VSP inventories are recorded in the General (major) and Other Special Revenue (nonmajor) Funds using the average cost methodology and are maintained at cost. VDOT inventories are recorded in the Commonwealth Transportation Fund (major) using the average cost methodology. VDH inventories are recorded in the General (major), Other Special Revenue (nonmajor), Dedicated Special Revenue (nonmajor), and Federal Trust (major) Funds. These inventories are maintained at cost based on either FIFO or the average cost methodology.

Inventories maintained by Correctional Enterprises (Internal Service Fund) are stated at the lower of cost or market using FIFO. Inventories maintained by the Virginia Museum of Fine Arts (Nonmajor Enterprise Fund), the Science Museum of Virginia (Nonmajor Enterprise Fund) and the Consolidated Laboratory (Nonmajor Enterprise Fund) are stated at cost using FIFO. Inventories maintained by the Internal Service Funds except for the Correctional Enterprises are stated at cost using FIFO.

The Department of Alcoholic Beverage Control (Nonmajor Enterprise Fund) maintains inventories using the average cost methodology. The Virginia Industries for the Blind (Nonmajor Enterprise Fund) maintains inventories at cost using the average cost methodology. The State Lottery Department's (Major Enterprise Fund) inventory consists of unsold instant tickets that are valued at cost and expensed over the life of each game as it is sold to retailers.

Institutions of higher education (Component Units) use several methods for inventory valuations, including cost using FIFO, the lower of cost or market using FIFO, or weighted average methods. Inventories maintained by the Virginia Equine Center Foundation (Nonmajor Component Unit) are stated at the lower of cost or market using FIFO. Inventories maintained by the Virginia Port Authority (Nonmajor Component Unit) are reported using the moving average cost methodology. The Virginia Housing Development Authority (Major Component Unit) maintains inventories at the lower of cost or fair value.

J. Prepaid Items

Prepaid assets for rent, insurance, and similar items reported in governmental funds are recognized when purchased and expensed when used.

K. Other Assets

Other Assets include those balances of a miscellaneous nature that are not specifically classified elsewhere (see Note 7).

L. Interfund Loans Receivable/Payable

Loans Receivable/Payable represent working capital advances from one fund to another (see Note 6).

M. Capital Assets

Capital assets of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the Government-wide Statement of Net Assets. Capital assets of the other funds and component units are capitalized in the fund in which they are utilized. All depreciable capital assets are depreciated on the straight-line basis over their useful lives (see Note 9).

Capital assets are stated at historical cost or, in some instances, estimated historical cost. Donated capital assets are stated at fair market value at the time of donation. As further discussed in Note 26, the Commonwealth capitalizes all equipment that has a cost or value greater than \$50,000 and expected useful life of greater than two years. The Commonwealth capitalizes all property, plant, and infrastructure that have a cost or value greater than \$100,000 and an expected useful life of greater than two years. Selected agencies and institutions of higher education utilize a capitalization limit lower

or higher than the Commonwealth's established thresholds for various reasons. Accordingly, reported fixed assets may include some items that cost less than those thresholds. Infrastructure, including highways, bridges, and rights-of-way, is capitalized using the historical approach.

The Commonwealth's capitalization policy regarding works of art/historical treasures is that capitalization is encouraged, but not required, for works of art/historical treasures that meet the following conditions:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain;
- The collection is protected, kept unencumbered, cared for and preserved; and
- The collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.

The Commonwealth capitalizes construction-in-progress when project expenditures exceed \$100,000. Interest incurred during construction is not capitalized in governmental funds. Interest incurred during the construction of proprietary fund assets is included in the capitalized value of the asset. Expenditures are classified as construction-in-progress if:

- (1) they extend the asset life, improve productivity, or improve the quality of service; and
- (2) they fall into the planning, acquisition, construction, improvement, renovation, repair, replacement, relocation or demolition phase of the asset life.

The estimated lives of fixed assets are as follows:

	<u>Years</u>
Buildings	15–50
Equipment	2–20
Infrastructure	5–50

Selected institutions of higher education utilize estimated lives that may vary from the above ranges.

N. Accounts Payable

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, accounts payable also include payments for nonexchange transactions that met eligibility requirements prior to year-end (see Note 16).

O. Deferred Revenue

Deferred revenue represents monies received or revenues accrued but not earned as of June 30, 2003. The majority of this amount is reported by higher education institutions (Component Unit), where it is primarily composed of revenue for student tuition accrued in advance of the semester and advance payments on grants and contracts. In the General Fund (major), deferred revenue represents receivables that will be collected after August 31, 2003. In the Special Revenue Funds, deferred revenue is composed primarily of Federal grant money received but not spent. In the Enterprise Funds, a majority represents unearned premiums of Risk Management (nonmajor), unearned revenues of Consolidated Laboratory (nonmajor), and on-line ticket monies received by the State Lottery (major) for which corresponding drawings have not been held. In the Internal Service Funds, it represents primarily unearned premiums for the Risk Management Fund. Deferred revenues in the other component units consist primarily of the deferral of fees related to various lending activities.

P. Deferred Taxes (formerly reported as Deferred Credit)

Deferred Taxes represent the deferral of income taxes withheld or received for the period January through June 2003. This amount is the estimate to be refunded (overpayments by taxpayers) reduced by the estimate to be received (underpayments from taxpayers) that will be finalized when income tax returns are filed in subsequent years. Individual income tax estimated overpayments total \$449,045,040 and estimated underpayments total \$280,957,531. This results in deferred taxes of \$168,087,509. Corporate income tax estimated overpayments total \$23,536,507 and estimated underpayments total \$48,005,470. When underpayments exceed overpayments, revenue on the fund statements is only recognized to the extent of estimated overpayments. Since underpayments exceed overpayments for corporate income taxes, the deferred tax amount is zero for the fiscal year.

Prior to fiscal year 2003, underpayments were not included in the computation. The fiscal year 2002 General Fund fund balance impact for deferred taxes was a reduction of \$501,766,409. The fiscal year 2003 beginning fund balance was increased by \$367,451,436 to include the underpayment estimate in the deferred tax calculation that includes the deferred tax impact of \$134,314,973. The net impact on current year revenue for deferred tax calculations is a decrease of \$33,772,536. The overall impact on fiscal years 2002 and 2003 is \$333,678,900. (See also Note 28).

The fiscal year 2003 Government-wide beginning net asset amount was also increased by \$31,171,591 which represents the amount that fiscal year 2002 corporate income tax estimated underpayments exceeded estimated overpayments. The fiscal year 2003 beginning net asset amount

was increased by a total of \$398,623,027. The net impact to current year revenue is a decrease to revenue of \$6,702,628. The overall impact on fiscal years 2002 and 2003 is \$391,920,399.

Q. Claims Payable

Claims payable, reported in the proprietary funds of the primary government, represent both health and liability insurance claims payable at June 30, 2003. This includes both actual claims submitted, as well as actuarially determined claims incurred but not reported. Claims relating to the Commonwealth's liability insurance programs are reported in the Risk Management – Internal Service Fund, and the Risk Management – Nonmajor Enterprise Fund. Also, health insurance claims are reported in the Health Care – Internal Service Fund and the Local Choice Health Care – Nonmajor Enterprise Fund (see Note 15.A. and 15.B.).

The claims payable reported in the Private Purpose Trust Fund reflects the amount of anticipated payments to the claimants of unclaimed property receipts.

R. Obligations Under Securities Lending Program

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, liabilities resulting from these transactions have been recorded as obligations under security lending transactions.

S. Other Liabilities

Other liabilities represent amounts owed for various governmental and proprietary activities. Some of these amounts will be paid shortly after fiscal year end (see Note 17).

T. Short-Term Debt

Short-term debt results from borrowings from anticipation notes, lines of credit and similar loans with parties external to the Commonwealth. The Commonwealth's policy is to disclose activity related to short-term borrowings occurring during the fiscal year. For fiscal year 2003, neither the Commonwealth nor its component units participated in short-term borrowings with external parties.

U. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column. The governmental fund statements reflect the portion of long-term liabilities that will be paid from expendable resources. The proprietary fund statements and discrete component unit statements reflect total long-term liabilities and distinguish between those portions payable within one year and those payable in future years (see Note 18).

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Expenditures for principal and interest payments for governmental fund general obligation bonds and revenue bonds are recognized in the Debt Service Fund (nonmajor) when due. In these fund statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures (see Note 18).

V. Reserved Fund Balances

Reserved fund balances indicate that portion of fund balance that is not available to fund operations or is legally segregated for specific future use. Fund balance reservations are not specifically denoted in instances where the nature of the fund dictates the entire amount is reserved.

W. Unreserved, Designated Fund Balances

Designations of fund balance, as shown in Note 2, are established to reflect tentative plans for future utilization of current financial resources. It is the policy of the Commonwealth to designate the portion of fund balance set aside by the General Assembly through the Appropriation Act to fund tentative but approved future plans. Unexpended appropriations approved by the Governor to be used to fund expenditures of the ensuing fiscal year are also reflected through a designation of fund balance. It is the policy of the Commonwealth to limit such designations in the event that their accumulation and presentation would cause a negative unreserved, undesignated fund balance to occur.

X. Unreserved, Undesignated Fund Balances

The unreserved, undesignated basis of budgeting fund balance is the amount of fund balance remaining from operations of the current and prior years, net of amounts established as reserved and designated fund balance described in Notes 1.V. and 1.W. above.

Y. Cash Management Improvement Act

Included in "Due to Other Governments" is the Commonwealth's Cash Management Improvement Act (CMIA) interest liability to the Federal government, which is calculated in accordance with the interest calculation and exchange provisions of the Federal Cash Management Improvement Act of 1990. The Commonwealth's interest liability is subject to review and final confirmation by the Financial Management Service (FMS) of the U.S. Treasury. The payment is to be made on or before March 1, 2004. Payment will be made from a sum sufficient appropriation authorized for this purpose by the Appropriation Act. The CMIA interest rate of exchange is based by law on the annualized average earnings rate of 13-week Treasury bills.

Z. Interest, Dividends, Rents, and Other Investment Income

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investment income is reported in this line item. Since this amount includes changes in the fair value of investments, the amount reported may be negative. In addition, the amount reported also includes rent payments received on properties owned by the Commonwealth.

AA. Intrafund Eliminations

Eliminations have been incorporated into the report to eliminate intrafund transactions within the related fund type. These eliminations prevent overstatement of financial activity.

BB. Interfund Activity

Generally, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to a different fund that expends the resources.

2. GENERAL FUND ANALYSIS – BASIS OF BUDGETING

The following schedule represents reservations and designations of General Fund balance on the basis of budgeting. The amounts differ from those presented in the General Fund Preliminary (Unaudited) Annual Report dated August 15, 2003 due to ABC audit adjustments.

Reservations and Designations of Fund Balance General Fund, Basis of Budgeting June 30, 2003		
<i>(Dollars in Thousands)</i>		
Fund Balance, June 30, 2003		\$ 554,791
Reserved Fund Balance:		
Revenue Stabilization Reserve Fund	\$ 247,481	
Payroll Reserve for July 1, 2003 Payroll	65,684	
Total Reserved Fund Balance		313,165
Unreserved Fund Balance:		
Designated:		
Amount Required for Reappropriation of 2003 Unexpended Balances:		
Mandatory Reappropriations	134,470	
Discretionary Reappropriations	14,638	
Capital Outlay	24,463	
Amount Required by Ch. 1042, 2003 Acts of Assembly	20,429	
Amount for Lottery Proceeds Fund	11,411	
Virginia Water Quality Improvement Fund - Part A	6,043	
Virginia Water Quality Improvement Fund - Part B	1,627	
Natural Disaster Sum Sufficient	4,982	
Accelerated Sales Tax for Transportation Trust Fund	23,563	
Total Designated Fund Balance		241,626
Undesignated Fund Balance, June 30, 2003		\$ -

3. REVENUE STABILIZATION FUND

In accordance with Article X, Section 8 of the *Constitution of Virginia*, the amount estimated as required for deposit to the Revenue Stabilization Fund must be appropriated for that purpose by the General Assembly. During fiscal year 2003, no deposit was required; however, a withdrawal of \$247.5 million was made. Withdrawals are limited to 50 percent of the fund balance for the current fiscal year. A deposit is not required based on fiscal year 2003 revenue collections. The Revenue Stabilization Fund has principal and interest on deposit of \$247.5 million reserved as a part of General Fund equity. The amount on deposit cannot exceed ten percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. The maximum amount allowed is \$963.0 million and \$958.3 million for fiscal year 2003 and fiscal year 2004, respectively.

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2003, the carrying amount of cash for the primary government was \$2,008,778,162 and the bank balance was \$265,152,007. In addition, cash balances related to executory costs attributable to capital leases in the amount of (\$1,009,433) are not reported in the Government-wide Statement of Net Assets, but are included in the Governmental Fund Balance Sheet. The

carrying amount of cash for the component units was \$849,355,434 and the bank balance was \$214,314,987. Cash equivalents are investments with an original maturity of three months or less.

The deposits of the primary government and the component units are secured in accordance with the provisions of the Virginia Security for Public Deposits Act, Section 2.2-4400 of the *Code of Virginia*. The Act requires any public depository that receives or holds public deposits to pledge collateral to the Treasury Board to cover public deposits in excess of Federal deposit insurance. The required collateral percentage is determined by the Treasury Board and ranges from 50 percent to 100 percent of public deposits in the case of a bank and 100 percent to 110 percent for a savings institution.

Securities pledged by banks and savings institutions, under the Act, are held by an approved escrow agent for the Treasury Board. In the event a depository bank defaults or becomes insolvent, the Treasury Board first assesses the collateral of the defaulting or insolvent institution and then assesses the collateral pledged by other public depositories on a statutory based ratio to the extent necessary to satisfy the assessment against the defaulting bank. The collateral pledged by all banks is sufficient to cover the uncollateralized public deposits of any single bank. Upon default or insolvency of a savings institution, the Treasury Board assesses the institution the amount of public funds on deposit in

excess of Federal insurance. The State Treasurer liquidates the necessary pledged collateral of the institution to reimburse public depositors to the extent of the institution's deposit liability to them. As a result, these deposits are considered insured.

Certain deposits are held by trustees in accordance with the Trust Subsidiary Act, Section 6.1–32.8 et seq. of the *Code of Virginia*. The Act requires that cash held by trustees while awaiting investment or distribution is not to be used by an affiliate bank of the trustee in the conduct of its business unless the affiliate bank delivers securities to the trust department as collateral that is at least equal to the fair value of the trust funds held on deposit in excess of amounts insured by Federal deposit insurance.

The Commonwealth is authorized, in accordance with the guidelines set forth in Section 2.2-4500 et seq. of the *Code of Virginia*, to invest in the following:

- U.S. Treasury and agency securities
- Corporate debt securities of domestic corporations
- Asset-backed securities
- Mortgage-backed securities
- AAA rated obligations of foreign governments
- Bankers acceptances and bank notes
- Negotiable certificates of deposit
- Repurchase agreements
- Money market funds

Permitted investments include agency mortgage-backed securities, reported as U.S. Treasury and agency securities, and asset-backed securities, reported as corporate notes, which by definition usually expose the investor to prepayment risk.

Prepayment risk, or the prepayment option granted the borrower, can create uncertainty concerning cash flows, can affect the price of the security causing negative convexity, and can expose the investor to reinvestment risk. Similarly, many agency and corporate securities are callable after some predetermined date at a predetermined price. The call options in regular agency debentures and some corporate securities can be open ended and may significantly impact cash flows, security pricing and reinvestment risks of these securities.

Certain investments held in trust by the Treasurer of Virginia in accordance with bond indentures and resolutions may have more restrictive investment policies. Investment policies of institutions of higher education (Component Units) are established by the institutions' governing boards.

The Board of Trustees of the Virginia Retirement System (VRS) (Primary Government) has full power to invest and reinvest the trust funds in accordance with Section 51.1–124.30 of the *Code of Virginia*, as amended. This section requires the Board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such investments so as to minimize the

risk of large losses unless under the circumstances it is clearly prudent not to do so.

The information presented for the external investment pools was obtained from audited financial statements. Copies of the State Non-Arbitrage Program (SNAP) report may be obtained by writing Evergreen Investment Management Company, LLC, Riverfront Plaza, 951 East Byrd Street, Richmond, Virginia 23219. Copies of the Local Government Investment Pool (LGIP) report may be obtained by writing the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218. Participation in these pools is voluntary, except for participants who borrow through the Virginia Public School Authority's pooled bond program and must participate in SNAP.

SNAP is an open-end management investment company registered with the Securities Exchange Commission (SEC). LGIP is not SEC-registered; however, it maintains a policy to operate in a manner consistent with SEC Rule 2a7.

Custodial Risk

Investments held by the Commonwealth at June 30, 2003, have been categorized according to the level of credit risk associated with its custodial arrangements at fiscal year end.

Credit risk, as used below, refers to the risk that the Commonwealth may not be able to obtain possession of its investments in the event of default by counterparty. The three types of credit risk are:

- Category 1, which includes investments that are insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name;
- Category 2, which includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the Commonwealth's name; and,
- Category 3, which includes uninsured and unregistered investments for which securities are held by the counterparty, or by its trust department or agent, but not in the Commonwealth's name.

Securities lent at year-end for cash collateral are presented as unclassified. Securities lent for non-cash collateral are classified according to the custodial arrangements.

The investments of the Pension Trust Funds are approximately 70 percent of the primary government investments that are in Category 1 and 96 percent of those in Category 3. Additionally, the entire amounts of Equity Index and Pooled Funds, Real Estate, Venture Capital, foreign currencies, and The Boston Company Pooled Employee Trust Fund included in the primary government schedule are attributable to the Pension Trust Funds, and cannot be categorized because the investments are not evidenced by physical securities.

Cash Equivalents - Primary Government
June 30, 2003

(Dollars in Thousands)

Type of Securities	Category			Fair Value
	1	2	3	
Cash Equivalents - Categorized				
U. S. Treasury and				
Agency Securities	\$ 85,646	\$ -	\$ -	\$ 85,646
Corporate Notes	1	-	-	1
Commercial Paper	1,590,255	-	-	1,590,255
Negotiable Certificates of Deposit	502,056	-	-	502,056
Repurchase Agreements	675,000	-	2,499	677,499
Banker's Acceptance	199	-	-	199
Mutual and Money Market Funds	6,739	-	-	6,739
	<u>\$ 2,859,896</u>	<u>\$ -</u>	<u>\$ 2,499</u>	
Cash Equivalents - Not categorized				
Deposits with the U. S. Treasury for Unemployment Compensation				391,009
Mutual and Money Market Funds				182,372
Total Cash Equivalents				3,435,776
Less: Component Unit portion of the Local Government Investment Pool				(112,495)
Less: General Fund Cash Drawn Against Cash Equivalents				<u>(1,296,751)</u>
Adjusted Total				<u>\$ 2,026,530</u>

Note: Fiduciary cash and cash equivalents in the amount of \$1,741,299 (dollars in thousands) are not included in the Government-wide Statement of Net Assets.

Investments - Primary Government

June 30, 2003

(Dollars in Thousands)

(Dollars in thousands)

Type of Securities	Category			Fair Value
	1	2	3	
Investments - Categorized				
U. S. Treasury and				
Agency Securities	\$ 6,132,696	\$ -	\$ 99,444	\$ 6,232,140
Common and Preferred Stocks	8,306,780	-	-	8,306,780
Corporate Notes	710,130	-	-	710,130
Corporate and Other Bonds	2,906,252	-	6,855	2,913,107
Commercial Paper	183,924	-	-	183,924
Negotiable Certificates of Deposit	320,420	-	-	320,420
Municipal Securities	66,620	-	-	66,620
Repurchase Agreements	81,558	-	11,142	92,700
Mutual and Money Market Funds	1,753,302	-	-	1,753,302
Investments held by broker-dealers under securities loans				
U. S. Government and				
Agency Securities	113,299	-	109,024	222,323
Common and Preferred Stocks	-	-	25,714	25,714
	<u>\$ 20,574,981</u>	<u>\$ -</u>	<u>\$ 252,179</u>	
Investments - Not categorized				
Deposits with the U. S. Treasury for Unemployment Compensation				3,550,436
Mutual and Money Market Funds				53,645
Foreign Currencies				13,064,363
Equity Index and Pooled Funds				1,098,170
Real Estate				2,177,705
Venture Capital				2,133,180
The Boston Company Pooled Employee Trust Fund				143,997
Guaranteed Investment Contracts				133,618
Fixed Income and Commingled Funds				227,658
Other				
Investments held by broker-dealers under securities loans:				
U. S. Government and Agency Securities				1,735,298
VRS Separate Account				2,443,399
Common and Preferred Stocks				498,439
Corporate Notes				22,588
Corporate Bonds				345,669
Component Units' Securities held in a Collateral Investment Pool				
Total Investments				48,455,325
Less: Component Unit portion of the Local Government Investment Pool				(78,174)
Less: General Fund Cash Drawn Against Investments				(1,486,296)
Adjusted Total				\$ 46,890,855

Note: Fiduciary investments in the amount of \$44,263,452 (dollars in thousands) are not included in the Government-wide Statement of Net Assets.

Cash Equivalents - Component Units

June 30, 2003

(Dollars in Thousands)

Type of Securities	Category			Fair Value
	1	2	3	
Cash Equivalents - Categorized				
U. S. Treasury and				
Agency Securities	\$ 26,301	\$ -	\$ -	\$ 26,301
Commercial Paper	12,496	-	-	12,496
Municipal Securities	1,075	-	-	1,075
Repurchase Agreements	510,915	73,342	4,225	588,482
Mutual and Money Market Funds	284	-	-	284
Other	-	46	42,024	42,070
	<u>\$ 551,071</u>	<u>\$ 73,388</u>	<u>\$ 46,249</u>	
Cash Equivalents - Not categorized				
Mutual and Money Market Funds				70,745
U. S. Government Securities				853
Other				5,138
Component Units' Investment in Local Government's Investment Pool				174,862
				<u>\$ 922,306</u>

Investments - Component Units

June 30, 2003

(Dollars in Thousands)

Dollars in Thousands)

Type of Securities	Category			Fair Value
	1	2	3	
Investments - Categorized				
U. S. Treasury and				
Agency Securities	\$ 699,585	\$ 13,003	\$ 3,971	\$ 716,559
Common and Preferred Stocks	101,464	-	5,594	107,058
Corporate Notes	127,760	950	-	128,710
Corporate Bonds	28,883	-	1,492	30,375
Commercial Paper	6,419	-	-	6,419
Municipal Securities	2,114,365	480	236	2,115,081
Repurchase Agreements	58,529	168,833	15,182	242,544
Asset Backed Securities	351,678	-	-	351,678
Agency Mortgage Backed	155,795	-	-	155,795
Mutual and Money Market Funds	404,612	-	-	404,612
Certificates of Deposit	1,405	-	-	1,405
Other	1,746,247	-	-	1,746,247
	<u>\$ 5,796,742</u>	<u>\$ 183,266</u>	<u>\$ 26,475</u>	
Investments - Not categorized				
Mutual and Money Market Funds				471,110
Real Estate				45,469
U. S. Government Securities				8,535
Index Funds				9,478
Other				123,242
Component Units' Investment in Local Government's Investment Pool				15,808
Investments held by broker-dealers under securities loans:				
Securities held in a Collateral Investment Pool				<u>27,078</u>
				<u>\$ 6,707,203</u>

Primary Government

Securities Lending

The State Treasury's securities lending program is managed by its Master Custodian, JP Morgan Chase and Company, under a contract dated December 1, 2000. The enabling legislation for the securities lending program is Section 2.2-4506 of Chapter 45 Investment of Public Funds of the *Code of Virginia*, as amended. No violations of legal or contractual provisions were noted during the year. The general account participated in the securities lending program for the entire year.

All securities lending loans are on an open-ended or one-day basis and may be terminated by Treasury with a 24-hour notice. Per the contract with JP Morgan Global Securities Lending, all pledged cash and other collateral attributable to loans made on the Commonwealth's behalf shall be maintained by the Master Custodian Bank, and Treasury cannot pledge or sell such collateral absent a default.

The State Treasury's contract with JP Morgan Global Securities Lending provides for loss indemnification against borrower default as defined in the applicable Master Securities Lending Agreement. Additionally, JP

Morgan Chase is liable for any losses experienced from reinvestment of cash collateral in investments not authorized by the provisions of the investment guidelines for the Commonwealth of Virginia agreed upon by both parties and made a part of the Securities Lending Agreement. There were no losses resulting from default during the reporting period, nor recoveries of prior period losses during this reporting period.

When securities are loaned, the collateral received is usually at least 102 percent of fair value of the securities loaned and must be maintained at 100 percent or greater. There are no stated restrictions on the amount of securities that may be loaned, but the basic composition of the general account portfolio effectively caps the maximum percentage of the portfolio that may be loaned. During the past fiscal year, approximately 19 percent of the general account securities were on loan.

During the past year, a combination of U.S. Government (Treasury and Agency) securities and corporate securities have been loaned, with the majority of the loaned securities being U.S. Government securities. Collateral received included a combination of cash and non-cash securities, with the non-cash collateral being U.S. Government securities.

Securities loaned for the general account as of June 30, 2003, had a reported amount of \$611,226,038 and a fair value of \$650,699,272. The fair value of the collateral received was \$660,896,329 providing for coverage of 101.6 percent. As a result, the State Treasury assumes no credit risk.

Current cash investment guidelines allow for a maximum weighted-average portfolio maturity of 120 days. At June 30, 2003, the open portion of the cash reinvestment portfolio had a weighted average maturity of seven days. Treasury's current cash reinvestment guidelines allow for investment in Government securities, AAA rated sovereign governments, commercial paper and corporate notes, negotiable certificates of deposit, certificates of deposit and time-deposits collateralized under the Virginia Security for Public Deposits Act, bankers' acceptances, bank notes, repurchase agreements collateralized by U.S. Treasury and Agency issues, and registered money market funds. At June 30, 2003, cash reinvestments were as follows: \$92 million in government repurchase agreements, \$15 million in commercial paper, \$132 million in floating rate corporate notes, \$6 million in negotiable certificates of deposit. Non-cash collateral value at June 30, 2003, was approximately \$416 million in government securities.

Under authorization of the Board of Trustees, the VRS lends its fixed income and equity securities to various broker-dealers on a temporary basis. The program is administered through an agreement with Mellon Trust. All security loan agreements are collateralized by cash, securities or irrevocable letter of credit issued by major banks, having a fair value equal to at least 102 percent of the fair value on domestic securities and 105 percent on international securities. Securities received as collateral cannot be pledged or sold by the VRS unless the borrower defaults. Contracts with the lending agents require them to indemnify the VRS if the borrowers fail to return the securities lent and related distributions, and the collateral is inadequate to replace the securities lent.

All security loans can be terminated on demand by either the VRS or the borrowers. The majority of loans are open loans meaning the rebate is set daily, resulting in a maturity of one or two days on average for loans, although securities are often out on loan for a longer period of time. The maturity of loans generally does not match the maturity of collateral investments, which averages 87 days. At year-end, the VRS has no credit risk exposure to borrowers because the amounts the VRS owes the borrowers exceed the amounts the borrowers owe the VRS. The fair value of securities on loan at June 30, 2003, was \$2,638,297,000 and the value of collateral (cash and non-cash) was \$2,697,437,000.

Securities out on loan are included with investments on the Combining Statement of Plan Net Assets and are classified in the summary of custodial risk. The invested cash collateral is included in the statement as an asset and corresponding liability. The invested cash collateral is also classified in the summary of custodial risk.

Under authorization of the Board of the University of Virginia Investment Management Company, the University of Virginia, through its agent, Mellon Bank,

lends U.S. Government and equity securities to various broker-dealers on a temporary basis for collateral. All security loan agreements are collateralized by readily marketable and liquid securities, loans or other obligations secured by a lien or similar interest on an asset, thereof totaling at least 102 percent of the market value of the loaned securities. The University of Virginia retains the right to pledge or sell these securities held as collateral at their discretion. All security loans can be terminated on demand by either the University or the borrower, and the average term of the security loans as well as collateral held is less than one week. Under the University's security lending program, securities loaned as of June 30, 2003 have a carrying value of \$127,949,799 and a market value of \$153,068,581. Collateral received totals \$156,392,735. In addition, the University participates in the State treasury's security lending program. Collateral held for securities lending transactions of \$3,685,723 represents the University's allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program.

As authorized by Section 2.2-4506 of the *Code of Virginia*, the Virginia Lottery, through its master custodian, JP Morgan Chase and Company, New York, N. Y., N. A., lends securities to various security brokers and lenders on a temporary basis for a fee. Up to 100 percent of the securities may be available for loan. All security loan agreements are collateralized at loan inception at 102 percent of market value by cash or U.S. Government obligations and adjusted to market daily to cover fair value fluctuations. As a result management assumes no credit risk.

The Virginia Lottery does not have the ability to use cash collateral or to pledge or sell collateral securities absent borrower default. The Lottery's contract with JP Morgan Chase and Company provides for loss indemnification against borrower default as a result of bankruptcy, insolvency, reorganization, liquidation, receivership, or similar event. There were no losses resulting from default during the reporting period, nor recoveries of prior period losses during this reporting period. At June 30, 2003, the fair value of investment account securities on loan was \$223,353,701 secured by \$228,104,103 in cash deposits, and \$125,161,836 secured by \$127,665,073 in market value securities that cannot be pledged or loaned.

Derivative Financial Instruments

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indexes. They include futures, forwards, options, or swap contracts. Some traditional securities, such as structured notes, can have derivative-like characteristics. In this case, the return may be linked to one or more indexes and asset-backed securities such as collateralized mortgage obligations (CMO), which are sensitive to changes in interest rates and prepayments. Futures, forwards, options, and swaps are generally not recorded on the financial statements, whereas structured notes and asset-backed investments generally are recorded.

The VRS is a party, both directly and indirectly, to various derivative financial investments that may or may not appear on the financial statements that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value resulting from fluctuations in market conditions. These investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements. Credit risk is the possibility that loss may occur from failure of a counterparty to perform according to the terms of the contract. Market risk arises from adverse changes in market prices, interest rates and foreign exchange rates that may result in a decrease in the market value of a financial investment or an increase in its funding cost, or both.

In addition to exposure from directly held derivative financial instruments, the VRS may have indirect exposure to risk through its ownership interests in commingled investment funds that use, hold, or write derivative financial instruments. Indirect exposure may also arise from stock lending programs in which the commingled funds participate. Such programs usually reinvest a portion of their cash collateral holdings in derivative instruments. The VRS' pro rata share of the contractual or notional amounts of outstanding derivative transactions in commingled investment funds and their related security lending programs approximated \$276,828,000 at June 30, 2003.

Forward, Futures, and Options Contracts

Forward contracts are contracts to purchase or sell, and futures contracts are contracts to deliver or receive financial instruments, foreign currencies or commodities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange traded) and require initial margin (collateral) in the form of cash or marketable securities. The net change in the futures contract value is settled daily in cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Accordingly, the amount at risk posed by nonperformance of counterparties to futures contracts is minimal. In contrast, forward contracts traded over-the-counter are generally negotiated between two counterparties. They are subject to credit risks resulting from nonperformance of one of the counterparties and to market risks resulting from adverse fluctuations in market prices, interest rates and foreign exchange rates.

Options may be either exchange traded or negotiated directly between two counterparties over the counter. Options grant the holder the right, but not the obligation, to purchase or sell a financial instrument at a specified price and within a specified period of time from the 'writer' of the option. As a purchaser of options, the VRS typically pays a premium at the outset. The premium is reflected as an asset on the financial statements. The VRS then retains the right but not the obligation to exercise the option and purchase the underlying financial instrument. Should the option not be exercised, it expires worthless and the premium is recorded as a loss. A writer of options assumes the obligation to

deliver or receive the underlying financial instrument on exercise of the option. Certain option contracts may involve cash settlements based on specified indexes such as stock indexes. As a writer of options, the VRS receives a premium at the outset. The premium is reflected as a liability on the financial statements and the VRS bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

Forward, futures, and options contracts provide the VRS with the opportunity to build passive benchmark positions, manage portfolio duration in relation to various benchmarks, adjust portfolio yield curve exposure and gain market exposure to various indexes in a more efficient way and at lower transaction costs. Credit risks depend on whether the contracts are exchange traded or are exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates, and foreign exchange rates. At June 30, 2003, the VRS had purchased S & P and Russell Index futures and options on Eurodollar and Treasury bond note futures, including options on Eurodollar futures, with a notional value of \$3,634,769,000 and sold S&P Index futures and options on Eurodollar and Treasury bond and note futures, including options on these futures with a notional value of \$1,248,932,000. At June 30, 2003, the VRS had pledged as collateral U.S. Treasury and U.S. Government Agency securities with a total market value of \$147,183,000 as the margin requirement for futures contracts.

In addition to unsettled purchases and sales, accounts receivable and accounts payable for security transactions at June 30, 2003, include receivables for deposits with brokers for securities sold short of \$785,703,000 and payables for securities sold short and not covered with market values of \$773,381,000.

Asset-Backed Securities

Among the instruments with derivative-like characteristics that the VRS invests in and that appear on the financial statements are various asset-backed securities such as collateralized mortgage obligations (CMO), principal-only strips (PO), and interest-only strips (IO). These instruments are used primarily to enhance returns by taking advantage of opportunities available in this sector of the securities markets. CMO securities are bonds collateralized by mortgage-backed securities and issued in several tranches that represent a reallocation of the underlying mortgage-backed securities cash flows. Both PO and IO securities are created by splitting the asset-backed securities into principal-only and interest-only portions. At June 30, 2003, the VRS held CMO securities with a fair value of \$157,025,000, and IO and PO securities with a fair value of \$7,839,000.

The credit risks on the various asset-backed securities in which the VRS invests are usually very low. Many of the securities held by the VRS are issued by quasi-U.S. governmental agencies. Others are issued by organizations with AAA or AA credit ratings. The market risk of these securities depends on changes in interest rates and the level of the underlying prepayments, i.e.,

when the mortgagors repay the underlying principal and interest.

Foreign Exchange Contracts

Foreign exchange contracts include forward, futures, and options contracts. They involve either the exchange of specific amounts of two currencies or the delivery of a fixed amount of a currency at a future date and specified exchange rate. Forward and futures contracts settle three or more business days from the contract date. Forward contracts are negotiated over-the-counter between two counterparties, while futures contracts are exchange traded. Foreign currency options, which are either negotiated between two counterparties or are exchanged traded, grant the buyer the right, but not the obligation, to purchase or sell at a specified price, a stated amount of an underlying currency at a future date. At June 30, 2003, the VRS had sold foreign currency contracts with a notional value of \$460,454,000 and had purchased foreign currency contracts with a notional value of \$462,032,000.

Foreign exchange contracts are used by the VRS to effect settlements and to protect the base currency (\$US) value of portfolio assets denominated in foreign currencies against fluctuations in the exchange rates of those currencies. The credit risk of currency contracts that are exchange traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over-the-counter lies with the counterparty, and exposure is usually equal to the unrealized profit on in-the-money contracts. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates.

Swap Agreements

Swaps are negotiated contracts between two counterparties for the exchange of payments at certain intervals over a predetermined time frame. The payments are based on a notional principal amount and calculated using either fixed or floating interest rates or total returns from certain instruments or indices. During fiscal year 2003, the VRS entered into interest rate and total return swaps with a total notional value of \$100,000,000. Swaps are used to manage risk and enhance returns. To reduce the risk of counterparty non-performance, the VRS generally requires collateral on any material gains from these transactions.

Component Units

Derivative Financial Instruments

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. A derivative instrument generally has one or more underlying investment, requires little or no initial net investment, and requires or permits a net settlement. In

addition, some traditional securities can have derivative-like characteristics. Examples of common derivatives include, but are not limited to, futures, forwards, options or swap contracts. Although the contract or notional amount of the derivative is not recorded on the financial statements, all derivative instruments are recognized as either an asset or a liability depending on the rights or obligations of the contract measured at fair value.

The Virginia Housing Development Authority (major) manages its interest risk on single and multi-family loan commitments through short sales of investment securities. These transactions meet the requirements for hedge accounting as all hedged items are specifically identified, probable of occurring, and highly correlated to the hedging instrument. The gain or loss from hedging transactions is recorded as an unamortized premium or discount and recognized as an adjustment to yield over the remaining life of the loan. The Authority periodically assesses correlation in order to determine the ongoing appropriateness of hedge accounting. During the year ended June 30, 2003, the Authority experienced a net loss of \$2,432,599 from hedging transactions settled during the year. At June 30, 2003, \$66,890,012 of short sales were outstanding which had an unrealized gain of \$2,699,070. The Authority's policy is to make adjustments to interest rates of loans related to such hedging transactions to reflect the losses or gains on such hedging transactions.

The University of Virginia (major) from time to time may use, through its investments and through investments in pooled funds, a variety of derivative securities including futures, options, and forward foreign currency contracts. These financial instruments are used to modify market risk exposure. Futures contracts and options on futures contracts are traded on organized exchanges and require collateral or margin in the form of cash or marketable securities. The net change in the futures contract value, if any, is settled with a cash transaction on a daily basis. Holders of futures contracts look to the exchange for performance under the contract and not the entity holding the offsetting futures position. Accordingly, the amount of risk due to non-performance of counterparties to the futures contracts is minimal. Foreign exchange contracts are used to protect the University's portfolio against fluctuations in the values of foreign currencies. The credit risk of forward currency contracts traded over-the-counter lies with the counterparty. Asset swap contracts are privately negotiated agreements between two participants to exchange the return stream derived from their assets to each other without exchanging underlying assets. The University uses asset swaps to gain exposure to certain market sectors in lieu of direct investment. The credit risk lies with the intermediary who arranges the asset swap. The University has no direct exposure to derivative instruments at June 30, 2003.

5. RECEIVABLES

The following schedule details the accounts, loans, taxes, and other receivables presented in the major funds, aggregated nonmajor funds by type, internal service funds, fiduciary funds, major component units, and aggregated nonmajor component units, as of June 30, 2003:

(Dollars in Thousands)

	Accounts and Loans Receivable	Taxes Receivable	Other Receivables	Allowance for Doubtful Accounts	Net Accounts Receivable	Amounts to be Collected Greater than One Year
Primary Government:						
General Fund	\$ 382,871	\$ 539,639	\$ 51,085	\$ (235,331)	\$ 738,264	\$ 6,641
Major Special Revenue Funds:						
Commonwealth Transportation Trust	140,370	109,853	-	(3,781)	246,442	56,692
Federal Trust	465,046	-	-	(20,252)	444,794	16
Literary	181,909	-	-	(143,879)	38,030	3,263
Major Enterprise Funds:						
State Lottery	34,738	-	-	-	34,738	-
Virginia College Savings Plan	873	-	352,903	-	353,776	302,566
Pocahontas Parkway	-	-	772	-	772	-
Unemployment Compensation	77,620	-	-	(19,510)	58,110	-
Nonmajor Governmental Funds	135,993	5,335	104	(76,409)	65,023	1,364
Nonmajor Enterprise Funds	17,623	-	210	(3)	17,830	-
Internal Service Funds	15,016	-	1	(89)	14,928	-
Private Purpose	599	-	209	(8)	800	291
Pension Trust (2)	110,936	-	1,943,022	-	2,053,958	-
Investment Trust Funds	-	-	30,808	-	30,808	-
Agency Funds	500	90,995	-	-	91,495	11,426
Total Primary Government (1)	\$ 1,564,094	\$ 745,822	\$ 2,379,114	\$ (499,262)	\$ 4,189,768	\$ 382,259
Discrete Component Units:						
Virginia Housing Development Authority	\$ 143,933	\$ -	\$ 2,730	\$ (7,270)	\$ 139,393	\$ -
Virginia Public School Authority	428,880	-	47,030	-	475,910	394,838
University of Virginia	167,995	-	39,237	(7,783)	199,449	51,263
Virginia Polytechnic Institute and State University	5,678	-	-	(913)	4,765	44
Virginia Commonwealth University	326,361	-	45,449	(214,307)	157,503	12,450
Nonmajor Component Units	1,703,913	2,406	13,773	(8,633)	1,711,459	35,065
Total Component Units	\$ 2,776,760	\$ 2,406	\$ 148,219	\$ (238,906)	\$ 2,688,479	\$ 493,660

Note (1): Fiduciary net receivables in the amount of \$2,177,061 (dollars in thousands) are not included in the Government-wide Statement of Net Assets

Note (2): The Other Receivables amount includes deposits for pending security transactions.

6. INTERFUND ASSETS/LIABILITIES

Due from/to Other Funds

Due from Other Funds are amounts to be received from one fund by another fund for goods sold or services rendered. Due to Other Funds are amounts owed by one fund to another fund for goods purchased or services obtained.

Included in the category of due from other funds are “Due from Other Funds and Primary Government,” “Due from External Parties (Fiduciary Funds),” and “Due from Component Units.” Included in the category of due to other funds are “Due to Other Funds and Primary Government,” “Due to External Parties (Fiduciary Funds),” and “Due to Component Units.” The following schedule shows the Due from/to Other Funds as of June 30, 2003 (in thousands of dollars).

Due To (Reported In):	General Fund	Commonwealth Transportation Trust Fund	Federal Trust Fund	Unemployment Compensation Fund	Nonmajor Governmental Funds	Internal Service Funds
Primary Government						
General Fund	\$ -	\$ 23,563	\$ -	\$ 291	\$ -	\$ 11,429
Major Special Revenue Funds:						
Commonwealth Transportation Trust	-	-	-	920	7,297	8,538
Federal Trust	2,551	-	-	37	-	5,982
Major Enterprise Funds:						
State Lottery	101	-	-	-	-	130
Virginia College Savings Plan	-	-	-	-	-	22
Unemployment Compensation	-	-	-	-	149	-
Nonmajor Governmental Funds	-	-	565	103	45	3,588
Nonmajor Enterprise Funds	4,143	-	-	28	1,017	501
Internal Service Funds	-	-	-	-	-	210
Pension Trust Funds	-	-	-	-	-	-
Agency Funds	-	-	3,501	-	350	-
Total Primary Government	\$ 6,795	\$ 23,563	\$ 4,066	\$ 1,379	\$ 8,858	\$ 30,400
Discrete Component Units						
Nonmajor Component Units	-	-	-	-	-	-
Total Component Units	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Note: The above schedule does not include \$19.9 million due to the Commonwealth Transportation Fund from Pocahontas Parkway that will not be repaid within one year.

Due From (Reported In):

<u>Pension Trust Funds</u>	<u>Agency Funds</u>	<u>Total Primary Government</u>	<u>University of Virginia</u>	<u>Virginia Polytechnic Institute & State University</u>	<u>Virginia Commonwealth University</u>	<u>Nonmajor Component Units</u>	<u>Total Component Units</u>
\$ -	\$ 217	\$ 35,500	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	16,755	-	-	-	-	-
-	-	8,570	-	-	-	-	-
-	-	231	-	-	-	-	-
-	-	22	-	-	-	-	-
-	-	149	-	-	-	-	-
-	-	4,301	-	-	-	360	360
-	-	5,689	-	-	-	-	-
-	-	210	-	-	-	-	-
20,737	1,772	22,509	-	-	-	-	-
-	-	3,851	-	-	-	-	-
<u>\$ 20,737</u>	<u>\$ 1,989</u>	<u>\$ 97,787</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 360</u>	<u>\$ 360</u>
-	-	-	5,467	5,682	4,295	23,788	39,232
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,467</u>	<u>\$ 5,682</u>	<u>\$ 4,295</u>	<u>\$ 23,788</u>	<u>\$ 39,232</u>

Interfund Receivables/Payables

Interfund Receivables/Payables are short-term loans made by one fund to another.

The following schedule shows the Interfund Receivables/Payables for the Primary Government as of June 30, 2003 (in thousands of dollars). There were no Interfund Receivables/Payables for the Component Units as of June 30, 2003.

	Receivable From (Reported In) Nonmajor Governmental Funds
Payable To (Reported In):	
Primary Government	
Major Special Revenue Funds:	
Commonwealth Transportation Trust	\$ 6,000
Federal Trust	7,670
Nonmajor Enterprise Funds	22,300
Internal Service Funds	9,833
Total Primary Government	\$ 45,803

Interfund Loans Receivable/Payable Between Other Funds and Between Primary Government and Component Units

The \$464.6 million in Interfund Loans Receivable represents loans from the Special Revenue Fund to the Virginia Public School Authority (Major Component Unit) and Higher Education (Component Unit).

The Literary Fund (Major Special Revenue Fund) provides low interest loans to school divisions for construction, renovation, and expansion of school buildings of the cities, counties and towns of the Commonwealth. Twice a year, all permanent loans in the Literary Fund are transferred to the Virginia Public School Authority (Major Component Unit) for use as collateral on bonds. A loan receivable is recorded by the Literary Fund. At year-end, \$452.9 million in loans were receivable in the Special Revenue Fund and payable from the Authority.

The remaining \$11.7 million was loaned to Higher Education (Component Unit.). George Mason University's (Nonmajor Component Unit) loan of \$7.5, the College of William and Mary's (Nonmajor Component Unit) loan of \$1.0 million and the Virginia Community College System's (Nonmajor Component Unit) loan of \$1.8 million were used to advance fund federally funded grant programs. The College of William and Mary's (Nonmajor Component Unit) additional loan of \$0.4 million are for construction projects. Longwood University's (Nonmajor Component Unit) loan of \$1.0 million will be used for the University's housing sprinkler project.

The \$161.6 million in Interfund Loans Receivable represents loans from the Virginia Public School Authority (Major Component Unit) to the Literary Fund (Major Special Revenue Fund). The Virginia Public School Authority makes grants to local school divisions to finance the purchase of educational technology equipment. The Authority makes these grants using the proceeds of notes issued for that purpose which will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund.

7. OTHER ASSETS

The following table summarizes Other Assets as of June 30, 2003:

(Dollars in Thousands)

	Cash and Travel Advances	Unamortized Bond Issuance Expense	Other Assets	Total Other Assets
Primary Government:				
General Fund	\$ 3,125	\$ -	\$ -	\$ 3,125
Major Special Revenue Funds:				
Commonwealth Transportation Trust	1,301	-	-	1,301
Federal Trust	2,681	-	-	2,681
Major Enterprise Funds:				
State Lottery	5	-	-	5
Pocahontas Parkway	-	5,733	-	5,733
Nonmajor Governmental Funds	585	-	34	619
Nonmajor Enterprise Funds	238	-	-	238
Internal Service Funds	1,012	-	-	1,012
Investment Trust Funds	-	-	23	23
Total Primary Government (1)	<u>\$ 8,947</u>	<u>\$ 5,733</u>	<u>\$ 57</u>	<u>\$ 14,737</u>
Discrete Component Units:				
Virginia Housing Development Authority	\$ -	\$ 123	\$ 4,687	\$ 4,810
Virginia Public School Authority	-	2,147	5	2,152
University of Virginia	-	-	1,484	1,484
Virginia Polytechnic Institute and State University	-	-	186	186
Virginia Commonwealth University (2)	264	1,859	123,366	125,489
Nonmajor Component Units	560	3,880	10,464	14,904
Total Component Units	<u>\$ 824</u>	<u>\$ 8,009</u>	<u>\$ 140,192</u>	<u>\$ 149,025</u>

Note (1): Fiduciary other assets in the amount of \$23 thousand are not included in the Government-wide Statement of Net Assets.

Note (2): The \$123,366 (dollars in thousands) pertains to the University's component unit, The Virginia Commonwealth University Health System Authority, and includes goodwill, investments in various hospital operations, and other assets whose use is limited.

8. RESTRICTED ASSETS

Restricted assets represent monies or other resources that must be used for specific legal or contractual requirements. The Virginia Housing Development Authority (Major Component Unit) and the Virginia Public School Authority (Major Component Unit) reported restricted assets totaling \$6.0 billion and \$159.5 million, respectively. These assets are restricted for debt service under a bond indenture agreement or other agreements. The Virginia Port Authority (Nonmajor Component Unit) reported restricted assets of \$221.6 million. Of this amount \$17.5 million is assets placed in escrow account for a construction project,

\$31.1 million is for unspent federal security grant proceeds for specific capital projects, and \$173.0 million for debt service under a bond indenture agreement. The Higher Education Institutions (Component Units) reported restricted assets totaling \$2.5 billion primarily for endowment and other contractual obligations. The remaining \$10.4 million is spread among the Hampton Roads Sanitation District Commission (Nonmajor Component Unit), the Virginia Biotech Research Company, and the Small Business Financing Authority (Nonmajor Component Unit).

9. CAPITAL ASSETS

The following schedule presents the changes in the Capital Assets:

Schedule of Changes in Capital Assets Governmental Activities

(Dollars in Thousands)

	Balance July 1, 2002 as restated	Increases	Decreases	Balance June 30, 2003
Nondepreciable Capital Assets:				
Land	\$ 1,181,112	\$ 176,914	\$ (45,115)	\$ 1,312,911
Construction in Progress	3,059,541	1,352,274	(1,475,722)	2,936,093
Total Nondepreciable Capital Assets	<u>4,240,653</u>	<u>1,529,188</u>	<u>(1,520,837)</u>	<u>4,249,004</u>
Depreciable Capital Assets:				
Buildings	1,995,368	148,988	(1,531)	2,142,825
Equipment	528,699	37,100	(22,572)	543,227
Infrastructure	14,076,040	1,298,150	(200,766)	15,173,424
Total Capital Assets being Depreciated	<u>16,600,107</u>	<u>1,484,238</u>	<u>(224,869)</u>	<u>17,859,476</u>
Less Accumulated Depreciation for:				
Buildings	638,991	49,659	(1,456)	687,194
Equipment	302,957	39,876	(20,444)	322,389
Infrastructure	7,782,688	318,557	-	8,101,245
Total Accumulated Depreciation	<u>8,724,636</u>	<u>408,092</u>	<u>(21,900)</u>	<u>9,110,828</u>
Total Depreciable Capital Assets, Net	<u>7,875,471</u>	<u>1,076,146</u>	<u>(202,969)</u>	<u>8,748,648</u>
Total Capital Assets, Net	<u>\$ 12,116,124</u>	<u>\$ 2,605,334</u>	<u>\$ (1,723,806)</u>	<u>\$ 12,997,652</u>

Depreciation Expense Charged to Functions of the Primary Government

For the Fiscal Year Ended June 30, 2003

(Dollars in Thousands)

Governmental Activities:	
General Government	\$ 8,488
Education	4,785
Transportation	324,912
Resources and Economic Development	7,996
Individual and Family Services	13,820
Administration of Justice	31,621
Capital Assets held by the Internal Service	
Funds are charged to various functions	16,470
Total	<u>\$ 408,092</u>

Note: Beginning balances have been restated by \$261,075 (dollars in thousands) due to the change in capitalization criteria and correction of prior period errors discussed in Notes 1.M. and 27.

Schedule of Changes in Capital Assets

Business-Type Activities

(Dollars in Thousands)

	Balance July 1, 2002 as restated	Increases	Decreases	Balance June 30, 2003
Nondepreciable Capital Assets:				
Land (1)	\$ 16,161	\$ -	\$ (44)	\$ 16,117
Construction in Progress	310,842	3,800	(314,642)	-
Total Nondepreciable Capital Assets	<u>327,003</u>	<u>3,800</u>	<u>(314,686)</u>	<u>16,117</u>
Depreciable Capital Assets:				
Buildings (2)	10,403	-	-	10,403
Equipment (2)	74,098	8,017	(6,714)	75,401
Infrastructure	<u>1</u>	<u>314,642</u>	<u>-</u>	<u>314,643</u>
Total Capital Assets being Depreciated	<u>84,502</u>	<u>322,659</u>	<u>(6,714)</u>	<u>400,447</u>
Less Accumulated Depreciation for:				
Buildings (2)	9,464	160	-	9,624
Equipment (2)	35,218	9,829	(6,687)	38,360
Infrastructure	<u>1</u>	<u>8,740</u>	<u>-</u>	<u>8,741</u>
Total Accumulated Depreciation	<u>44,683</u>	<u>18,729</u>	<u>(6,687)</u>	<u>56,725</u>
Total Depreciable Capital Assets, Net	<u>39,819</u>	<u>303,930</u>	<u>(27)</u>	<u>343,722</u>
Total Capital Assets, Net	<u>\$ 366,822</u>	<u>\$ 307,730</u>	<u>\$ (314,713)</u>	<u>\$ 359,839</u>

Note (1): The beginning balance for land has been restated by \$14,435 (dollars in thousands) to correct for the omission of this amount from the prior year.

Note (2): Beginning balances for buildings and equipment have been restated by \$55 (dollars in thousands) to correct the improper classification of equipment as a building. Similarly, the beginning accumulated depreciation balances for buildings and equipment have been restated by \$29 (dollars in thousands) to correct the classification error.

Schedule of Changes in Capital Assets

Component Units

(Dollars in Thousands)

	Balance July 1, 2002 as restated	Increases	Decreases	Balance June 30, 2003
Nondepreciable Capital Assets:				
Land	\$ 311,650	\$ 30,896	\$ (2,840)	\$ 339,706
Construction in Progress	639,545	510,738	(509,707)	640,576
Inexhaustible Works of Art	67,625	1,586	(68)	69,143
Livestock	824	-	(45)	779
Total Nondepreciable Capital Assets	1,019,644	543,220	(512,660)	1,050,204
Depreciable Capital Assets:				
Buildings	4,296,652	346,458	(10,361)	4,632,749
Infrastructure	1,241,592	86,386	(315)	1,327,663
Equipment	1,769,923	172,984	(111,968)	1,830,939
Improvements Other Than Buildings	349,700	13,023	(3,454)	359,269
Library Books	508,284	28,645	(2,940)	533,989
Total Capital Assets being Depreciated	8,166,151	647,496	(129,038)	8,684,609
Less Accumulated Depreciation for:				
Buildings	(1,669,420)	(131,299)	6,330	(1,794,389)
Infrastructure	(658,958)	(45,211)	-	(704,169)
Equipment	(1,134,673)	(142,536)	79,300	(1,197,909)
Improvements Other Than Buildings	(115,500)	(9,701)	505	(124,696)
Library Books	(399,764)	(23,355)	2,119	(421,000)
Total Accumulated Depreciation	(3,978,315)	(352,102)	88,254	(4,242,163)
Total Depreciable Capital Assets, Net	4,187,836	295,394	(40,784)	4,442,446
Total Capital Assets, Net	\$ 5,207,480	\$ 838,614	\$ (553,444)	\$ 5,492,650

Beginning balances have been restated by \$21.6 million due to reclassifications and corrections of prior year errors. The following schedule is a summary of the restatement amounts.

Capital Asset Restatement - Component Units

(Dollars in Thousands)

	Balance July 1, 2002 Increase/(Decrease)
Nondepreciable Capital Assets:	
Land	\$ 13,569
Construction in Progress	(75,808)
Inexhaustible Works of Art	652
Total Nondepreciable Capital Assets	(61,587)
Depreciable Capital Assets:	
Buildings	93,229
Infrastructure	6,650
Equipment	(4,852)
Improvements Other Than Buildings	(25,768)
Library Books	650
Total Capital Assets being Depreciated	69,909
Less Accumulated Depreciation for:	
Buildings	62,170
Infrastructure	12,875
Equipment	1,170
Improvements Other Than Buildings	(53,488)
Library Books	7,226
Total Accumulated Depreciation	29,953
Total Depreciable Capital Assets, Net	39,956
Total Capital Assets, Net	\$ (21,631)

10. RETIREMENT AND PENSION SYSTEMS

A separately issued financial report that includes financial statements and required supplemental information for each of the individual plans discussed below is publicly available. Copies may be obtained by writing to Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

A. Plan Description

The Virginia Retirement System (VRS), a mixed agent and cost-sharing multiple-employer retirement plan, provides defined benefit pension plan coverage for State employees, teachers, political subdivision employees, and other qualifying employees. The assets accumulated by the plan may legally be used to pay all benefits provided by the plan to any of the plan members or beneficiaries. At June 30, 2003, the VRS had 798 contributing employers. The State Police Officers' Retirement System (SPORS), the Judicial Retirement System (JRS), and the Virginia Law Officers' Retirement System (VaLORS) are single-employer defined benefit retirement plans. The SPORS provides retirement benefits to Virginia state police officers, the JRS provides retirement benefits to the Commonwealth's judiciary, and the VaLORS provides benefits to law enforcement and correctional officers other than state police officers. All retirement systems are administered by the Virginia Retirement System (System), an independent agency of the Commonwealth.

Benefit provisions and all other requirements are established by Title 51.1 of the *Code of Virginia*. All full-time, salaried, permanent employees of the Commonwealth, with the exception of certain full-time faculty and administrative staff of higher education institutions and eligible employees of the Commonwealth's teaching hospitals who have the option not to participate in the VRS, must participate in the VRS, SPORS, JRS, or VaLORS. Benefits vest after five years of service.

Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating law enforcement officers) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating law enforcement officers). Employees may retire with a reduced benefit at age 50 with at least ten years of credited service or at age 55 (age 50 for participating law enforcement officers) with at least five years of credited service.

Annual retirement benefits are payable monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Members of the SPORS and VaLORS may receive a monthly benefit supplement if they retire prior to age 65. Members of VaLORS hired before July 1, 2001, were allowed to make a one-time election to

increase the multiplier from 1.7 percent to 2.0 percent instead of receiving the supplement. Members of VaLORS hired after June 30, 2001, have their benefit computed using the 2.0 percent multiplier and are not eligible for the supplement. Members of the JRS receive weighted years of creditable service for each year of actual service under JRS. The VRS, SPORS, VaLORS, and JRS also provide death and disability benefits. These benefit provisions and all other requirements are established by State statute.

B. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the pension trust funds are prepared using the economic resources measurement focus and the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed, and investment income is recognized as earned by the pension plans. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Method Used to Value Investment

Investments are reported at fair value as determined by the System's master custodian, Mellon Trust, from its Global Pricing System. This system assigns a price source, based on asset type and the vendor pricing products to which the master custodian subscribes, for every security held immediately following its acquisition. Prices supplied by these sources are monitored on a daily basis by the master custodian.

The pricing sources utilized by the master custodian provide daily prices for equity securities, corporate, government and mortgage-backed fixed income securities, private placement securities, futures and options on futures, open-ended funds, and foreign exchange rates. Depending on the vendor, collateralized mortgage obligations, adjustable rate mortgages, and asset-backed securities are priced either daily, weekly or twice a month, and at month end. Municipal fixed income securities and options on Treasury/Government National Mortgage Association securities are priced at month end.

When a pricing source is unable to provide a price, quotes are sought from major investment brokers and market-making dealers or internal calculations are applied if feasible. As a last resort, the master custodian will contact investment managers for a price. The master custodian prices commingled funds, partnerships, and real estate assets from statements received from the funds, partnerships, or investment managers.

The retirement plans have no concentrations of investments in any one organization that represent 5 percent or more of plan net assets available for benefits.

C. Funding Policy

Employer and employee contributions are required by Title 51.1 of the *Code of Virginia*. The Commonwealth pays the 5 percent of employees' annual salaries that employees are required to contribute to the retirement system.

Employer contributions by the Commonwealth to VRS were 0.00 (zero) percent for fiscal year 2003; however, it is scheduled to increase to 3.77 percent in fiscal year 2004. Employer contributions to

SPORS, VaLORS, and JRS were 11.05 percent, 12.00 percent, and 29.00 percent, respectively, of covered payrolls. For fiscal year 2003, the contribution to SPORS, VaLORS, and JRS were slightly less than the rates recommended by the actuary; however, the rates are scheduled to be at levels recommended by the actuary for fiscal year 2004. These rates were less than actuarially determined Annual Required Contributions (ARC), but they did meet statutory requirements. The ARC has parameters for funding automatic cost-of-living increases (COLAs) for retirees.

D. Annual Pension Cost and Net Pension Obligation

The following table (reported in thousands of dollars) shows the Commonwealth's annual pension cost and net pension obligation to the VRS, SPORS, JRS, and VaLORS for the current and prior years.

	VRS			SPORS		
	2003	2002	2001	2003	2002	2001
Annual required contribution	\$ 145,138	\$ 141,175	\$ 162,654	\$ 21,791	\$ 21,296	\$ 21,320
Interest on net pension obligation	27,322	20,728	19,193	2,203	1,292	1,196
Adjustment to annual required contribution	(23,880)	(17,754)	(14,439)	(1,925)	(1,106)	(900)
Annual pension cost	148,580	144,149	167,408	22,069	21,482	21,616
Contributions made	-	(61,716)	(148,215)	(8,781)	(10,095)	(20,420)
Increase in net pension obligation	148,580	82,433	19,193	13,288	11,387	1,196
Net pension obligation, beginning of year	341,532	259,099	239,906	27,538	16,151	14,955
Net pension obligation, end of year	\$ 490,112	\$ 341,532	\$ 259,099	\$ 40,826	\$ 27,538	\$ 16,151
Percentage of annual pension cost contributed	0.0%	42.8%	88.5%	39.8%	47.0%	94.5%

	JRS			VaLORS		
	2003	2002	2001	2003	2002	2001
Annual required contribution	\$ 22,266	\$ 21,655	\$ 21,126	\$ 76,564	\$ 77,599	\$ 51,220
Interest on net pension obligation	1,322	436	404	4,423	213	197
Adjustment to annual required contribution	(1,156)	(373)	(304)	(3,865)	(182)	(148)
Annual pension cost	22,432	21,718	21,226	77,122	77,630	51,269
Contributions made	(13,604)	(10,641)	(20,822)	(34,895)	(25,006)	(51,072)
Increase in net pension obligation	8,828	11,077	404	42,227	52,624	197
Net pension obligation, beginning of year	16,531	5,454	5,050	55,284	2,660	2,463
Net pension obligation, end of year	\$ 25,359	\$ 16,531	\$ 5,454	\$ 97,511	\$ 55,284	\$ 2,660
Percentage of annual pension cost contributed	60.6%	49.0%	98.1%	45.2%	32.2%	99.6%

The VRS pension liability for the Virginia Economic Development Partnership (VEDP) (Component Unit), the Virginia Tourism Authority (VTA) (Component Unit), and the Virginia Outdoors Foundation (VOF) (Component Unit) are reported in the financial statements. However, since the Commonwealth is not considered the employer for VEDP, VTA, or VOF, the Commonwealth's net pension obligation shown above at the end of the year does not include VEDP's pension liability of \$1.2 million, VTA's pension liability of \$269,474, or VOF's pension liability of \$5,937. The financial statements do not include the VRS pension liability of \$8,439 for the Virginia Information Providers Network (VIPNET) (Related Organization).

The annual required contributions for the current year and the most recent actuarial valuation of assets were determined by the June 30, 2001, actuarial valuation. Actuarial valuations were prepared using the entry age normal cost method. The actuarial assumptions included (a) 8.00% investment rate of return, per year compounded annually; (b) projected salary increases ranging from 4.00% to 6.10%, including a 3.00% inflation component; and (c) 3.00% per year COLA. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at June 30, 2002, was 30 years or less.

E. Defined Contribution Plan for Political Appointees

Officers appointed by the Governor, officers elected by popular vote or the General Assembly, and executive branch chief deputies and confidential assistants may participate in the Deferred Contribution Plan for Political Appointees, rather than the VRS. This optional retirement plan is authorized by the *Code of Virginia* and offered through the Great West Company. This is a defined contribution plan where the retirement benefits are based upon the Commonwealth's (5.4 percent) and the employee's (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 2003, the total contributions to this plan were \$607,719.

The summary of significant accounting policies for the plan is in accordance with those discussed in Section B. The plan has no concentration of investments in any one organization that represents 5.0 percent or more of the plan net assets available for benefits.

F. Higher Education Fund (Component Unit)

The Commonwealth's colleges and universities participate in the VRS, a mixed agent and cost-sharing multiple-employer retirement plan. The VRS issues a separate stand-alone report that is publicly available as previously discussed.

In addition, full-time faculty and certain administrative staff of the Commonwealth's colleges and universities may participate in an optional retirement annuity program, rather than the VRS. Optional Retirement Plans are authorized by the *Code of Virginia* and provide retirement and death benefits. The optional retirement annuity programs are offered through Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) Insurance Companies, Variable Annuity Life Insurance Company (VALIC), Fidelity Investments, Inc., Great West Life, Inc., T. Rowe Price, Inc., and Metropolitan Life. These are defined contribution programs where the retirement benefits received are based upon the Commonwealth's (5.4 percent) and employees' (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 2003, the total contributions to these plans were:

TIAA-CREF	\$	63,820,202
VALIC		4,077,188
Fidelity Investments		24,903,937
Great West Life		221,951
T. Rowe Price		1,261,745
Metropolitan Life		159,704
Total	\$	<u>94,444,727</u>

The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – Major) contributes to the VRS. The VRS issues a separate stand-alone report that is publicly available as previously discussed. Effective July 1, 1997, the Authority established the Virginia Commonwealth University Health System Authority Defined Contribution Plan (the Plan). All employees working at least 35 hours of service per week are eligible to participate in the Plan. Per the Plan document as approved by the Authority's Board of Directors, the Authority contributes 8.0 percent of the participant's salary to the Plan, up to a maximum of \$30,000. Total contributions for the year ended June 30, 2003, were approximately \$6,874,000. The Authority has the right at anytime, and without the consent of any party, to terminate the Plan in its entirety. The Authority's Board of Directors must approve any changes to the provisions of the Plan, including the contribution requirements, in writing. The Authority has also established the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (the HCP Plan). All persons hired as a health care provider on or after July 1, 1993, and prior to July 1, 1997, and working at least 35 hours of service per week are eligible to participate in the HCP Plan. At June 30, 2003, there were 8 participants in the HCP Plan. All significant provisions of the HCP Plan, including the contribution requirements, are similar to the Plan. Total contributions to the HCP Plan for the year ended June 30, 2003, were approximately \$31,000.

The Medical College of Virginia Associated Physicians (MCVAP) (a Component Unit of the Authority) sponsors the MCVAP 403(b) Retirement Fund (the 403(b) Plan), a defined contribution plan which covers substantially all non-medical employees of MCVAP. MCVAP's contribution to the 403(b) Plan (7.5 percent of participants' compensation) approximated \$1,764,000 for the year ended June 30, 2002. As of January 1, 2002, no additional contributions were made to this Plan.

MCVAP also sponsors the MCVAP 401(a) Retirement Plan (the 401(a) Plan), a noncontributory, defined contribution plan which covers substantially all full time clinical providers of MCVAP. Contributions to the 401(a) Plan, as determined annually at the discretion of the Board of Directors were approximately \$4,283,000 for the year ended June 30, 2003.

MCVAP also sponsors the VCUHS 401(a) Retirement, a defined contribution plan which covers all non-medical employees of MCVAP and the VCUHS 457(b) Retirement Plan, a salary reduction plan that represents employee contributions. These plans became effective on January 1, 2002, and replaced the MCVAP 403 9b) plan for all non-medical staff. The contributions to the VCUHS 401(a) and VCUHS 457(b) Plan for the period ended June 30, 2003, were approximately \$3,090,000.

VA Premier (a Component Unit of the Authority) adopted a 401(k) plan sponsored by Prudential Mutual Fund Management, Inc. Employees may enter into the plan on the first day of the month coinciding with or following the date on which the employee begins employment. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute 1 percent to 15 percent of their compensation. VA Premier will match 50 percent of the employees' contributions up to 4 percent of the employees' compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes 3 percent of the employee's compensation after each bi-weekly payroll effective when the employee begins employment. Employees are fully vested after four years of service in which the employees have at least 1,000 hours of service each year. The total expense to VA Premier in fiscal year 2003 was approximately \$241,000.

Effective January 1, 1997, James Madison University (nonmajor) established a Supplemental Retirement Plan for tenured faculty members. The plan was designed to provide flexibility in the allocation of faculty positions. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and is a governmental plan within the meaning of section 414(d) of the Code. Since it is a governmental plan, the plan is not subject to the Employee Retirement Income Security Act of 1974 as amended. Since inception, 103 faculty members have elected to enroll in the plan. As of June 30,

2003, 57 participants remain, including 14 new participants who retired under this plan during fiscal year 2003. In order to satisfy IRS requirements, a trust fund has been established as means to make the payments to the plan participants. The University prepaid the entire fiscal year 2004 plan contribution of \$1,106,863 in fiscal year 2003.

The Innovative Technology Authority (ITA) (nonmajor) has a defined contribution retirement plan covering substantially all employees. Under the plan, contributions are fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by TIAA-CREF. Pension contributions for the plan totaled \$334,046 in fiscal year 2003.

G. Other Component Units

Note 1.B. outlines the component units included in the Commonwealth's reporting entity. The Virginia Historic Preservation Foundation (Blended - Primary Government), the Virginia Public Building Authority (Blended - Primary Government), the Virginia Public School Authority (major), the Virginia College Building Authority (nonmajor), the Virginia State Parks Foundation (Blended - Primary Government), the Virginia Schools for the Deaf and Blind Foundation (nonmajor), and the Pocahontas Parkway Association (Blended - Primary Government) have no employees. The Virginia Economic Development Partnership, the Small Business Financing Authority, the Hampton Roads Sanitation District Commission, the Virginia Biotechnology Research Park Authority, the A. L. Philpott Manufacturing Extension Partnership, the Virginia Outdoors Foundation, the Virginia Tourism Authority, the Tobacco Indemnification and Community Revitalization Commission, the Virginia Tobacco Settlement Foundation (all nonmajor), and the Virginia Land Conservation Foundation (Blended - Primary Government) contribute solely to the VRS, a mixed agent and cost-sharing multiple-employer retirement plan. The VRS issues a separate stand-alone report that is publicly available as previously discussed.

Full-time employees of the Virginia Housing Development Authority (major) participate in a defined contribution employees' retirement savings plan administered by the Authority. This is a noncontributory plan where the Authority incurs employment retirement savings expense equal to 8.0 percent of full-time employees' compensation. Total retirement savings expense under this plan was \$1,329,292 in fiscal year 2003. The retirement expense is fully funded as incurred; therefore, there is no unfunded future retirement liability.

The Virginia Port Authority (nonmajor) contributes to the VRS. The Authority also sponsors two single-employer noncontributory defined benefit pension plans. The Virginia Port Authority Pension Plans are administered by the Authority and provide retirement, disability, and death benefits to plan members and beneficiaries. Benefit provisions and obligations are established and may be amended

by the Board of Commissioners of the Authority. The Authority's policy is to fund annually the minimum funding requirements of the Employee Retirement Income Security Act of 1974. In addition, the plan was restated October 1, 2001, to ensure compliance with additional regulations. On February 28, 2002, the plan was amended to provide for a one-time Voluntary Retirement Opportunity Program (VROP). The program provided for early retirement of selected employees who were 58 years of age and had at least ten

years of creditable service as of April 1, 2002. The effect on this amendment, an increase in the actuarial present value of accumulated plan benefits of \$2,337,300, was accounted for and fully funded during the fiscal year ended June 30, 2002.

The components of annual pension cost and prepaid pension obligation for the first single-employer noncontributory defined benefit pension plan are as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Service cost - benefits earned during the year	\$ 987,000	\$ 982,000	\$ 935,000
Interest cost on projected benefit obligation	2,144,000	1,910,000	1,766,000
Expected return on assets	(2,429,000)	(2,550,000)	(2,898,000)
Net amortization and deferral	76,400	42,700	(496,000)
One time recognition - VROP	-	2,337,300	-
Annual pension cost	778,400	2,722,000	(693,000)
Contributions made	(2,916,100)	(2,840,200)	(249,000)
Increase in prepaid pension obligation	(2,137,700)	(118,200)	(942,000)
Prepaid pension obligation, beginning of year	(5,624,700)	(5,506,500)	(4,564,500)
Prepaid pension obligation, end of year	<u>\$ (7,762,400)</u>	<u>\$ (5,624,700)</u>	<u>\$ (5,506,500)</u>

The annual pension cost for the current year was determined as part of the September 30, 2002, actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. The discount rate used in determining the actuarial present value of projected benefit obligation was 8.0 percent in fiscal years 2003, 2002, and 2001. The expected long-term rate of return on assets used in determining net periodic pension cost was 7.5 percent.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 2003, 2002, and 2001.

Three-Year Trend Information

<u>Fiscal Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Prepaid Pension Obligation</u>
2003	\$ 778,400	375 %	\$ (7,762,400)
2002	\$ 2,722,000	104 %	\$ (5,624,700)
2001	\$ (693,000)	0 %	\$ (5,506,500)

In November 2001, the second plan was amended to provide benefits to sworn police officers that more closely resemble the new retirement benefits provided to members of the Virginia Law Enforcement Officers Retirement System. The

effect of those changes is included in the accompanying pension data.

The components of annual pension cost and prepaid pension obligation for the second single-employer noncontributory defined benefit pension plan are as follows:

	<u>2003</u>
Service cost - benefits earned during the year	\$ 197,071
Interest cost on projected benefit obligation	111,771
Expected return on assets	(36,821)
Net amortization and deferral	87,904
Annual pension cost	359,925
Contributions made	(802,299)
Additional minimum liability	158,952
Increase in pension obligation	(283,422)
Pension obligation, beginning of year	867,180
Pension obligation, end of year	<u>\$ 583,758</u>

The annual pension cost for the current year was determined as part of the August 2003 actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. Actual value of assets was determined using market value. The discount rate used in determining the actuarial present value of the projected benefit obligation was 6.0 percent in 2003, 7.0 percent in 2002, and

7.5 percent in 2001. The expected long-term rate of return on assets used in determining net periodic pension cost was 8.0 percent.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 2003.

Trend Information			
Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2003	\$ 359,925	223 %	\$ 583,758
2002	\$ 193,689	108 %	\$ 867,180
2001	\$ 166,256	112 %	\$ 193,239

The Authority also sponsors two noncontributory supplemental plans covering certain key employees. The Authority's current policy is not to fund the costs of these plans. The plans had assets of \$1,827,788 and an accrued liability of \$1,876,091.

The Virginia Resources Authority sponsors a retirement savings plan whereby 12 percent of eligible employees' salary is contributed on an annual basis. Total retirement savings expense was \$29,321 for the year ended June 30, 2003, a portion of which is reimbursed.

The Virginia Equine Center Foundation has a defined contribution plan which covers all full-time employees of the Foundation who have one year of service and are age twenty-one or older. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974. Contributions to the plan are discretionary and the Foundation will determine the amount to contribute to the plan each year. No contributions were made on behalf of the employees for the fiscal year ended June 30, 2003.

11. OTHER EMPLOYMENT BENEFITS

In addition to the pension plans, the Commonwealth participates in three other employment benefit plans, Group Life Insurance, Retiree Health Insurance Credit, and Virginia Sickness and Disability Program, which are administered by the Virginia Retirement System (VRS). The VRS administers a fourth other employment benefit plan, the Volunteer Firefighters' and Rescue Squad Workers' Fund, in which the Commonwealth does not participate, but may provide funding. The significant accounting policies for all four plans are the same as those described in Note 10 for pension plans. A separately issued financial report that includes financial statements for Group Life Insurance, Retiree Health Insurance Credit, and Virginia Sickness and Disability Program is publicly available. Copies may be obtained by writing to Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

Group Life Insurance

The Group Life Insurance Plan provides life insurance benefits for State employees, teachers, employees of political subdivisions participating in the VRS, State police officers, judges, and other qualifying employees. In fiscal year 2003 there were approximately 95,229 state employees and 40,164 retirees in the program.

As part of this plan, the State provides life insurance benefits for retired employees in accordance with Title 51.1 of the *Code of Virginia*. To be eligible, the employee must have retired or terminated employment after age 55 and have had five years of continuous service or retired because of disability. At retirement or termination, natural death coverage starts to reduce by 25 percent each year until coverage reaches 25 percent of its value at retirement or termination.

Postemployment life insurance benefits are advance funded on an actuarially determined basis using the aggregate cost actuarial method. Rates were determined in a June 30, 2001, actuarial valuation using the same actuarial assumptions used for determining pension plan contribution rates. The modified market value of plan assets was used for valuation purposes. Retirees are not required to contribute to the group life plan. The Commonwealth's actuarially required contribution rate for the current year was 0.98 percent of payroll. This contribution covers premiums for active employees and actual death claims for retirees.

The accrued liabilities for postemployment death benefits actuarially determined through an actuarial valuation performed as of June 30, 2002, were \$1,787.3 million. The actuarial value of the program's assets available for benefits on that date was \$1,006.3 million, leaving a present value of future contributions of \$781.0 million. In April 2002, the General Assembly suspended contributions for the remainder of fiscal year 2002 through fiscal year 2004.

Retiree Health Insurance Credit

The Retiree Health Insurance Credit Plan provides health insurance credits against the monthly health insurance premiums for retired State employees, State police officers, and judges with at least 15 years of creditable service on the current disbursement basis. Benefit provisions and eligibility requirements are established by Title 51.1-1400 of the *Code of Virginia*. Approximately 28,334 state retirees were receiving health insurance credits at June 30, 2003.

The monthly credit amounts to \$4.00 per year of service not to exceed a maximum allowance of \$120.00. The contribution rate was determined as part of the June 30, 2000, actuarial valuation that determined the pension plan contribution rates. The Commonwealth's actuarially required contribution rate for the current year was 1.21 percent of payroll; however, contributions were paid at 0.89 percent of payroll. The Commonwealth recognized Retiree Health Insurance Credit expenses of \$61.0 million during the fiscal year ended June 30, 2003.

Virginia Sickness and Disability Program

The Virginia Retirement System (System) administers the Virginia Sickness and Disability Program to provide income protection for absences due to sickness or disability from the first day on the job. After a seven calendar-day waiting period following the first incident of disability, eligible employees receive short-term disability benefits ranging from 60 to 100 percent of compensation up to a maximum of 125 work days, based upon months of State service. After a 180 calendar-day waiting period (125 work days of short-term disability), eligible employees receive long-term disability benefits equal to 60 percent of compensation until they return to work, until age 65 (age 60 for State police officers), or until death.

The VSDP was established on January 1, 1999, for all full-time, classified State employees, including State police officers and other State law enforcement and corrections officers, hired on or after January 1, 1999. Part-time, classified employees who work at least 20 hours a week on a salaried basis and who accrue leave are also covered. Eligible State employees and State police officers of the Commonwealth employed prior to January 1, 1999, had the option to elect to participate in the VSDP or to remain in the Commonwealth's existing disability retirement and sick leave program (see Notes 10 and 14). Eligible employees enrolled in the VSDP are not eligible for disability retirement benefits under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers Retirement System (VaLORS).

Faculty of Virginia institutions of higher education, hired or appointed on or after January 1, 1999, who elected the VRS as their retirement plan, must make an irrevocable election to participate in the VSDP or in the institution's disability program. If there is no institution program, the faculty is covered under this program.

All State agencies are required to contribute to the cost of providing long-term disability benefits. Initial contribution requirements to fund the program were determined by the System's actuary based on an estimate of the amount of the liability for disability benefits that would transfer from the VRS and SPORS to the VSDP for the anticipated new participants in the VSDP. This contribution requirement was 1.07 percent of payroll for State employees and 1.42 percent of payroll for State police officers and VaLORS employees during the fiscal year. The Commonwealth recognized long-term disability expenses of \$16.8 million during the fiscal year. As of June 30, 2003, there were approximately 62,280 participants.

Volunteer Firefighters' and Rescue Squad Workers' Fund

Volunteer firefighters and rescue squad workers may participate in an optional postemployment benefit plan. This optional plan is authorized by the *Code of Virginia*. The Board of Trustees of the VRS manages the investments of the Fund as custodian. Members of the plan contribute \$30 per quarter. The Commonwealth will contribute an amount determined by the Board and appropriated by the General Assembly, if such funds are appropriated, for a period not to exceed twenty years.

There was no appropriation in fiscal year 2003. At June 30, 2003, there were 942 workers participating in the Fund.

12. DEFERRED COMPENSATION PLANS

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Virginia Retirement System (VRS) administers the deferred compensation plan, pursuant to the Government Employees Deferred Compensation Plan Act, Section 51.1, Chapter 6 et seq. of the *Code of Virginia*. The VRS contracts with private corporations or institutions subject to the standards set forth in the *Code* to provide investment products as well as any other goods and services related to the administration of the deferred compensation plan. The Department of Accounts is responsible for the accounting, reconciliations, and record keeping associated with State employees' enrollment, payment to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the VRS for investment. The plan provides a number of investment options and is designed so that each participant retains investment control of his/her individual account. The plan, available to all State employees, permits them to defer a portion of their salary until future years. The deferred compensation is held in trust for the exclusive benefit of plan participants and their beneficiaries and is not available to employees until termination, retirement, death, or unforeseeable emergency. Since the VRS has no fiduciary relationship with plan participants, plan assets of \$502.4 million are not included in the financial statements.

In addition, the Commonwealth provides a cash match under Internal Revenue Code Section 401(a) for employees participating in the deferred compensation plan who have been employed at least one year. The match amount for an employee was established at 50 percent of the voluntary contributions to the deferred compensation plan. During the current fiscal year, the maximum match was \$20 per pay period or \$40 per month. The fair value of assets in the cash match savings plan at June 30, 2003, was \$31.2 million, which is also excluded from the financial statements.

The Virginia Housing Development Authority (Major Component Unit) and the Virginia Resources Authority (Nonmajor Component Unit) have a deferred compensation plan available to all employees created in accordance with Internal Revenue Section 457. The Plan permits participants to defer a portion of their salary or wage until future years. The deferred compensation is not available to employees until termination, retirement, or death. The assets of the Plan are in an irrevocable trust with an external trustee and, accordingly, no assets or liabilities are reflected in the financial statements.

The Virginia Port Authority (VPA) (Nonmajor Component Unit) offers three deferred compensation plans and two matching savings plans under Internal Revenue Code Sections 457 and 401(a), respectively. Employees who maintain status under VRS are covered under the Deferred Compensation Plan administered by the VRS as discussed above. The VPA Deferred

Compensation Plan covers all employees hired after July 1, 1997, and those employees electing coverage under the Authority's deferred compensation plan. The VPA also offers a matching savings plan that covers substantially all employees. The matching savings plan requires the VPA to match contributions in an amount equal to 50 percent of the first 6 percent of the participant's base pay contributed to the plan. VPA's total contribution to the matching savings plan was \$97,103 for the fiscal year ended June 30, 2003. Further, the right to modify, alter, amend or terminate the Deferred Compensation Plan and Matching Savings Plan vests with the VPA Board of Commissioners.

The third deferred compensation plan and second matching savings plan covers substantially all nonunion employees with 90 days or more of service. The matching savings plan requires the VPA to match employee contributions in an amount equal to 50 percent of the first 3 percent of the participant's base pay contributed to the deferred compensation plan. VPA's total contribution to the matching savings plan was \$280,492 for the fiscal year ended June 30, 2003.

The Hampton Road Sanitation District's (the District) Commission adopted a post-retirement health benefit for qualifying employees beginning after July 1, 2002. The program furnishes health and dental benefits for life for all employees with at least 15 years of service and who also qualify for an unreduced retirement benefit through the Virginia Retirement System. The program allows the retiree at their expense to cover their spouse and dependent under the District's health care provider. The District funded the estimated prior service cost of approximately \$7,000,000 in a separate trust established for this purpose from the sale of land and additional designated revenue. For the year ended June 30, 2003 the estimated ongoing annual required contribution is approximately \$500,000, and is funded through operations.

13. COMMITMENTS

A. Construction Projects

Highway Projects

At June 30, 2003, the Department of Transportation (Primary Government) had contractual commitments of approximately \$1,992.7 million for construction of various highway projects. Funding for these expenditures is expected to be provided as follows: (1) Federal Funds – approximately 31.1 percent or \$624.3 million, (2) State Funds – approximately 65.1 percent or \$1,297.0 million, and (3) Proceeds from Bonds – approximately 3.6 percent or \$71.4 million.

Mass Transit Projects

At June 30, 2003, the Department of Rail and Public Transportation (Primary Government) had contractual commitments of approximately \$96.7 million for various public transportation and rail preservation projects. Funding of the future expenditures is expected to be as follows: (1) State Funds – approximately 87 percent or \$84.1 million,

and (2) Federal Funds – approximately 13 percent or \$12.6 million.

Port Projects

At June 30, 2003, the Virginia Port Authority (Nonmajor Component Unit) was committed to construction contracts totaling \$95.7 million.

Sanitation District Project

At June 30, 2003, the Hampton Roads Sanitation District Commission (Nonmajor Component Unit) was committed to construction programs totaling \$39.0 million.

Higher Education Institutions

Many of the colleges and universities are committed to construction contracts. As of June 30, 2003, these commitments totaled approximately \$494.9 million.

B. Operating Leases

The Commonwealth has entered into numerous agreements to lease land, buildings, and equipment. Most of the operating leases contain the provision that the Commonwealth may renew the operating leases at the expiration date of the lease on a month-to-month basis. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases of a similar nature. Rental expense for the primary government under these operating leases for the year ended June 30, 2003, was \$73.1 million for governmental activities (including Internal Service Funds) and \$13.7 million for business-type activities. Rental expense for the discrete component units for the year ended June 30, 2003, was \$71.4 million. The Commonwealth has, as of June 30, 2003, the following minimum rental payments due under the above leases (dollars shown in thousands):

	Primary Government		Component Units
	Governmental Activities	Business-Type Activities	
2004	\$ 60,217	\$ 10,212	\$ 40,209
2005	45,045	7,361	26,599
2006	32,610	5,795	20,659
2007	14,477	3,543	16,409
2008	10,669	1,333	9,879
2009-2013	34,513	540	28,152
2014-2018	8,927	-	20,406
2019-2023	3,114	-	2,033
2024-2028	761	-	823
2029-2033	396	-	823
2034-2038	-	-	823
2039-2043	-	-	823
2044-2048	-	-	823
2049-2053	-	-	82
Total	<u>\$ 210,729</u>	<u>\$ 28,784</u>	<u>\$ 168,543</u>

Lease agreements are for various terms and all leases contain nonappropriation clauses indicating

that continuation of the lease is subject to funding by the General Assembly.

C. Investment Commitments – Virginia Retirement System

The Virginia Retirement System extends investment commitments in the normal course of business, which, at June 30, 2003, amounted to \$1.7 billion.

14. ACCRUED LIABILITY FOR COMPENSATED ABSENCES

Employees accrue annual leave at a rate of four to nine hours semimonthly, depending on their length of service. The maximum leave accumulation is dependent upon years of service, but in no case may it exceed 432 hours. The maximum compensation for annual leave balances is also dependent upon years of service, but in no case may an employee be compensated for more than 336 hours.

All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program (VSDP) (see Note 11). Under the VSDP, employees receive a specified number of sick and personal leave hours, depending on their length of service, and any balances at the end of the calendar year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the original sick leave plan. If converting, the employee's sick leave balance could be used to purchase retirement credits or be converted to disability credits. If an employee opted to remain in the original sick leave program, sick leave accrues at a rate of five hours semimonthly. Employees who leave State service after a minimum of five years employment receive the lesser of 25 percent of the value of their disability credits or accumulated sick leave at their current earnings rate or \$5,000. All employees leaving State service are paid for accrued annual leave up to the maximum calendar year limit at their current earnings rate.

In conformance with Section C60 of GASB Codification, the monetary value of accumulated annual and sick leave and disability credits payable upon termination is included in the accompanying financial statements. In the government-wide statements, proprietary fund statements, and discrete component unit fund statements, amounts are segregated into two components – the amount due within one year and the amounts due in more than one year. In the governmental fund statements, amounts to be paid from expendable resources are recognized as fund liabilities in the applicable governmental fund types as long-term liabilities and represent payments for separations that occurred prior to June 30. Amounts not payable from expendable resources are reflected in the governmental activities column in the Government-wide Statement of Net Assets (see Note 18). All amounts related to the fiduciary funds are recognized in those funds.

The liability at June 30, 2003, was computed using salary rates effective at that date, and represents vacation, compensatory and sick leave earned or

disability credits held up to the allowable ceilings. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, an additional liability amount has been included for those employees remaining in the original sick leave program with less than 5 years of service based on the probability that they will eventually become vested. Also included in the liability is the Commonwealth's share of FICA taxes on leave balances for which employees will be compensated.

15. INSURANCE

A. Self-Insurance

The Commonwealth maintains two types of self-insurance plans. The first type of self-insurance is a health care plan administered by the Department of Human Resource Management for State employees. The plan is accounted for in the Health Care – Internal Service Fund. Interfund premiums are accounted for as internal activity receipts from other funds. At June 30, 2003, \$78.8 million is reported as the estimated claims payable for this fund. The estimated liability is based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported as described in Note 1.Q. Changes in the balances of claims liabilities (reported in thousands of dollars) during the current and prior fiscal years are as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2002-2003 \$	79,608	\$ 579,001	\$ (579,809)	\$ 78,800
2001-2002 \$	74,044	\$ 536,562	\$ (530,998)	\$ 79,608

The second type of plan, risk management insurance, is administered by the Department of Treasury, Division of Risk Management and the Department of Human Resource Management, Worker's Compensation Program. This plan is accounted for in the Risk Management – Internal Service Fund. Interfund premiums are accounted for as internal activity receipts from other funds. Risk management insurance includes workers' compensation, property, general (tort) liability, medical malpractice, and automobile plans. At June 30, 2003, \$189.2 million is reported as the estimated claims payable for these self-insurance plans. The estimated losses are based upon actual claims that have been submitted, as well as claims incurred but not reported. Changes in the balances of claims liabilities (reported in thousands of dollars) during the current and prior fiscal years are as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2002-2003	\$ 178,328	\$ 72,356	\$ (61,499)	\$ 189,185
2001-2002	\$ 180,429	\$ 50,912	\$ (53,013)	\$ 178,328

For workers' compensation, the Commonwealth assumes the full risk of claims filed. For tort, including general and automobile liability, liability is assumed to \$2,000,000 per occurrence. Medical malpractice liability is assumed to \$1,000,000 per occurrence. For property damage, Risk Management purchases \$400,000,000 of insurance with a \$1,000,000 deductible.

The Commonwealth has not had any insurance settlements exceed the coverage during the past three years.

The Virginia Port Authority (Nonmajor Component Unit) is partially self-insured for certain workers' compensation claims. The Authority maintains insurance coverage of \$5,000,000 per claim, but is obligated to pay the first \$1,000,000 of any individual's claims per incident. The Authority is also partially self-insured for employee health coverage. The Authority is responsible for actual claim costs up to \$75,000 per individual per calendar year. Insurance coverage is maintained for claims in excess of the individual employee limit and for aggregate claims in excess of \$3,439,955.

B. Public Entity Risk Pools

The Commonwealth administers two types of public entity risk pools for the benefit of local governmental units: health care and risk management insurance. The Local Choice Health Care plan was established to make comprehensive health care insurance available to localities and political subdivisions at affordable rates and with stable premiums. During the fiscal year, there were 220 local government units participating in the pool. This includes 26 school districts, 28 counties, 81 cities/towns, and 85 other subdivisions. This program is accounted for in the Local Choice Health Care Enterprise Fund (nonmajor).

The Department of Human Resource Management, under Section 2.2-1204 of the *Code of Virginia*, has the authority to design, set rates, and administer the Local Choice Health Care fund. The pool's standard contract period is one year. However, a member group may withdraw on the last day of any month with three month's written notice. Contributions are based on the current necessary contribution and the amortization of experience adjustments in the pool. At June 30, 2003, \$13.0 million is reported as the actuarially determined estimated claims payable for this fund based on claims incurred but not reported.

The actuarial liability is determined for the membership pool in total and then adjusted for

each locality based on individual historic and demographic data. If the pool's assets were to be exhausted, the program participants would share the responsibility for any liabilities or deficits.

The Department of Treasury, Division of Risk Management administers risk management pools for errors and omissions liability insurance and law enforcement professional liability insurance in accordance with Section 2.2-1839 of the *Code of Virginia*. They also administer a commuter rail liability pool for both the Northern Virginia and the Potomac & Rappahannock Transportation Commissions. These pools were established to provide an economical low-cost, internally managed alternative to the commercial insurance market for the Commonwealth's political subdivisions. These risk programs are accounted for in the Risk Management Enterprise Fund (nonmajor). The pool is established subject to the approval of the Governor. It may be insurance, self-insurance, or any combination thereof, and must provide protection and legal defense against liability. Local participation is voluntary and open to any political subdivision. As of June 30, 2003, there were 528 units of local government in the pool. This includes 5 cities, 36 towns, and 46 counties. The balance includes a large variety of boards, commissions, authorities, and special districts.

The pool has a minimum membership period of one year. However, a member group can cancel their membership and withdraw from the plan on their coverage anniversary date or at the end of the fiscal year with thirty days notice.

The pool is actuarially valued annually and is considered sound. Investment income is considered in the anticipation of premium deficiencies. No excess insurance or reinsurance is provided, but a "stability fund" is incorporated into the actuarially determined required reserves. If, however, the plan assets and reserves were to be exhausted, the members would be responsible for any deficits or liabilities.

For the liability insurance pool, local participation is voluntary and open to any political subdivision. The risk assumed by the local public entity pool for member liability is \$1,000,000 per occurrence. The commuter rail liability pool was established to fulfill the liabilities of the Commissions. As a result of the Commissions' agreement with several localities, participating localities contribute to the pool based on the number of residents riding the commuter rail and their total population. This pool assumes liability up to \$5,000,000 per occurrence, and commercial insurance has been purchased to pay larger claims subject to an annual aggregate limit of \$200,000,000.

At June 30, 2003, \$9.9 million is reported as estimated claims payable for these programs. This figure is actuarially determined for the fund in total and is reported at gross and does not reflect possible reimbursements for insurance recoveries.

The following schedule (reported in thousands of dollars) shows the changes in claims liabilities for the past two fiscal years.

	Local Choice Health Care		Risk Management	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year	\$ 14,886	\$ 12,643	\$ 10,878	\$ 10,951
Incurring Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Fiscal Year	104,453	95,860	5,174	5,700
Changes in Provision for Insured Events of Prior Fiscal Years	-	-	(3,209)	(2,530)
Total Incurred Claims and Adjustment Expenses	104,453	95,860	1,965	3,170
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	106,346	93,617	380	550
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Year	-	-	3,036	3,283
Total Payments	106,346	93,617	3,416	3,833
Change in Provision for Discounts	-	-	468	590
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted)	<u>\$ 12,993</u>	<u>\$ 14,886</u>	<u>\$ 9,895</u>	<u>\$ 10,878</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	<u>\$ 12,993</u>	<u>\$ 14,886</u>	<u>\$ 10,246</u>	<u>\$ 11,499</u>

16. ACCOUNTS PAYABLE AND OTHER ACCRUED EXPENSES

The following table (reported in thousands of dollars) summarizes Accounts Payable and Other Accrued Expenses as of June 30, 2003.

(Dollars in Thousands)

	Vendor	Salary/ Wage	Retainage	Other	Total
Primary Government:					
General Fund	\$ 99,133	\$ 88,107	\$ 758	\$ -	\$ 187,998
Major Special Revenue Funds:					
Commonwealth Transportation Trust	131,220	32,108	17,084	-	180,412
Federal Trust	81,487	16,269	5,439	53	103,248
Literary	182	-	-	-	182
Major Enterprise Funds:					
State Lottery	1,240	1,603	-	6,723	9,566
Virginia College Savings Plan	342	127	-	-	469
Pocahontas Parkway	307	-	1,019	-	1,326
Nonmajor Governmental Funds	22,533	23,079	716	677	47,005
Nonmajor Enterprise Funds	18,261	3,455	-	270	21,986
Internal Service Funds	21,522	2,993	-	164	24,679
Private Purpose	269	78	-	77	424
Pension Trust	344	860	-	15,903	17,107
Agency Funds	-	-	-	3,463	3,463
Total Primary Government	\$ 376,840	\$ 168,679	\$ 25,016	\$ 27,330	\$ 597,865
Discrete Component Units:					
Virginia Housing Development Authority	\$ 82,484	\$ -	\$ -	\$ -	\$ 82,484
Virginia Public School Authority	107	-	-	-	107
University of Virginia	72,081	59,700	3,169	7,917	142,867
Virginia Polytechnic Institute and State University	36,214	37,685	2,484	-	76,383
Virginia Commonwealth University	42,099	44,777	916	-	87,792
Nonmajor Component Units	72,299	92,476	11,782	3,974	180,531
Total Component Units	\$ 305,284	\$ 234,638	\$ 18,351	\$ 11,891	\$ 570,164

Note: Fiduciary liabilities of \$20,994 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. In addition, Governmental Fund liabilities of \$48,510 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

17. OTHER LIABILITIES

The following table (reported in thousands of dollars) summarizes Other Liabilities as of June 30, 2003.

	Primary Government				Virginia College Savings Plan
	General Fund	Commonwealth Transportation Trust Fund	Federal Trust Fund	State Lottery	
Lottery Prizes Payable	\$ -	\$ -	\$ -	\$ 45,287	\$ -
Due to Program Participants, Escrows, and Providers	-	-	-	-	185
Medicaid Payable	160,373	-	221,540	-	-
Family Access to Medical Insurance Security Payable	579	-	1,080	-	-
Accrued Interest Payable	-	-	-	-	-
Tax Refunds Payable	217,898	-	-	-	-
Other Liabilities	-	-	-	-	-
Deposits Pending Distribution	2,104	5	-	-	-
Car Tax Refund Payable	29,018	-	-	-	-
Matured Debt Payable	-	-	-	-	-
Grants Payable	-	-	-	-	-
Total Other Liabilities	<u>\$ 409,972</u>	<u>\$ 5</u>	<u>\$ 222,620</u>	<u>\$ 45,287</u>	<u>\$ 185</u>

	Primary Government (continued)				Internal Service Funds
	Pocahontas Parkway (1)	Unemployment Compensation Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	
Lottery Prizes Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to Program Participants, Escrows, and Providers	-	39,088	-	-	-
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Accrued Interest Payable	3,420	-	-	-	-
Tax Refunds Payable	-	-	-	-	-
Other Liabilities	19,899	-	1,535	71	2,528
Deposits Pending Distribution	-	-	2,325	134	-
Car Tax Refund Payable	-	-	-	-	-
Matured Debt Payable	-	-	15	-	-
Grants Payable	-	-	-	-	-
Total Other Liabilities	<u>\$ 23,319</u>	<u>\$ 39,088</u>	<u>\$ 3,875</u>	<u>\$ 205</u>	<u>\$ 2,528</u>

Note (1): The \$19,899 represents an interfund liability to the Commonwealth Transportation Fund that will not be repaid within one year. This amount is reclassified to an internal balance on the Government-wide Statement of Net Assets.

Primary Government (continued)

	Private Purpose Funds	Pension Trust Funds	Investment Trust Funds	Agency Funds	Total Primary Government (2)
Lottery Prizes Payable	\$ -	\$ -	\$ -	\$ -	\$ 45,287
Due to Program Participants, Escrows, and Providers	13	9	-	462,291	501,586
Medicaid Payable	-	-	-	-	381,913
Family Access to Medical Insurance Security Payable	-	-	-	-	1,659
Accrued Interest Payable	-	-	-	-	3,420
Tax Refunds Payable	-	-	-	-	217,898
Other Liabilities	-	928	86	6,915	31,962
Deposits Pending Distribution	-	-	-	12,395	16,963
Car Tax Refund Payable	-	-	-	-	29,018
Matured Debt Payable	-	-	-	-	15
Grants Payable	-	-	-	-	-
Total Other Liabilities	<u>\$ 13</u>	<u>\$ 937</u>	<u>\$ 86</u>	<u>\$ 481,601</u>	<u>\$ 1,229,721</u>

Note (2): Fiduciary liabilities of \$482,637 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. In addition, General Fund liabilities of \$168,087 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

Component Units

	Virginia Housing Development Authority	Virginia Public School Authority	University of Virginia	Virginia Polytechnic Institute & State University	Virginia Commonwealth University
Lottery Prizes Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to Program Participants, Escrows, and Providers	-	-	-	-	-
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Accrued Interest Payable	76,360	45,763	-	-	3,007
Tax Refunds Payable	-	-	-	-	-
Other Liabilities	14,418	13,041	18,600	31,885	34,916
Deposits Pending Distribution	-	-	189,313	4,654	24,423
Car Tax Refund Payable	-	-	-	-	-
Matured Debt Payable	-	-	-	-	-
Grants Payable	-	-	-	-	-
Total Other Liabilities	<u>\$ 90,778</u>	<u>\$ 58,804</u>	<u>\$ 207,913</u>	<u>\$ 36,539</u>	<u>\$ 62,346</u>

Component Units (continued)

	Nonmajor Component Units	Total Component Units
Lottery Prizes Payable	\$ -	\$ -
Due to Program Participants, Escrows, and Providers	-	-
Medicaid Payable	-	-
Family Access to Medical Insurance Security Payable	-	-
Accrued Interest Payable	34,012	159,142
Tax Refunds Payable	-	-
Other Liabilities	45,729	158,589
Deposits Pending Distribution	15,292	233,682
Car Tax Refund Payable	-	-
Matured Debt Payable	-	-
Grants Payable	5,684	5,684
Total Other Liabilities	<u>\$ 100,717</u>	<u>\$ 557,097</u>

Medicaid Payable

Medicaid Payable represents services rendered but not billed by providers and potential liability resulting from cost reports not settled as of year-end. Providers subject to cost settlement are paid in the interim based on established per diem or diagnosis related group rates for services.

The Department of Medical Assistance Services (DMAS) estimates, based on past experience, the total amount of Medicaid claims that will be paid from the Medicaid program in the future which relate to services provided before year-end. At June 30, 2003, the estimated liability related to Medicaid claims totaled \$381.9 million. Of this amount \$160.4 million is reflected in the General Fund (major) and \$221.5 million in the Federal Trust Special Revenue Fund (major).

Family Access to Medical Insurance Security Payable

DMAS estimates the total amount of claims that will be paid from the Family Access to Medical Insurance Security program in the future which relate to services provided before year-end. At June 30, 2003, the estimated liability related to claims totaled \$1.7 million. Of this amount, \$0.6 million is reflected in the General Fund (major) and \$1.1 million in the Federal Trust Special Revenue Fund (major).

Tax Refunds Payable

Tax refunds payable represent refunds due on individual tax returns filed for the calendar year ended December 31, 2002, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2003. The individual tax return filing deadline is May 1 of each year for the preceding calendar year. The

corporate tax return filing deadline is the 15th day of the fourth month following the close of the corporate fiscal year.

Car Tax Refund Payable

During the year ended June 30, 1998, the General Assembly passed the Personal Property Tax Relief Act. Under the terms of this legislation, the Commonwealth will assume financial responsibility for the personal property taxes assessed by localities over a five-year period beginning in 1998. The amount reported on the balance sheet represents personal property taxes assessed by the localities before June 30, 2003, and paid by the Commonwealth after June 30, 2003. The majority of the amount pertains to the 2003 personal property taxes. However, some prior year reimbursements are also included due to delinquent taxpayer payments. The tax years and applicable rates are as follows:

2003	70.0%
2002	70.0%
2001	70.0%
2000	47.5%
1999	27.5%
1998	12.5%

The balance of Other Liabilities is spread among various other funds.

18. LONG-TERM LIABILITIES

Commonwealth bonds are issued pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(a) bonds have been issued to redeem previous debt obligations. Section 9(b) bonds have been authorized by the citizens of Virginia through bond referenda to finance capital projects. These bonds are retired through the use of State appropriations. Section 9(c) bonds are issued to finance capital projects which, when completed, will generate revenue to repay the debt. Section 9(a), 9(b), and 9(c) bonds are tax-supported general obligation bonds and are backed by the full faith, credit, and taxing power of the Commonwealth. No other long-term debt or obligations are backed by the full faith, credit, and taxing power of the Commonwealth.

Section 9(d) bonds are revenue bonds and are not backed by the full faith, credit and taxing power of the Commonwealth. These bonds are not general obligation bonds and are not deemed to constitute a legal liability of the Commonwealth. This debt may be supported by State appropriations in whole or in part, as in the case of certain debt of the VPA (Nonmajor Component Unit), VPBA (Primary Government), ITA (Nonmajor Component Unit), and VCBA (Nonmajor Component Unit). Other 9(d) revenue bonds are payable from general revenues of the component units, or from revenues of specific revenue-producing capital projects such as the teaching hospitals, dormitories, student centers, and dining halls at the various State colleges and universities (Component Units). Additionally, the 9(d) Transportation Bonds (Primary Government) are payable solely from revenues or earnings, and other available sources of funds appropriated by the General

Assembly. The 9(d) Pocahontas Parkway Association Bonds (Primary Government) are special, limited obligations of the Association, secured by a gross revenue pledge and payable solely from revenues prior to payment of current expenses and from monies held in certain funds and accounts held in trust.

Certain 9(d) bonds are considered, with 9(a), 9(b), and 9(c) bonds, to be tax-supported debt of the Commonwealth. Tax-supported debt includes all bond issues and short-term debt supported by State tax revenues (net of sinking fund requirements), for which debt service payments are made or are ultimately pledged to be made from general governmental funds.

Other 9(d) revenue bonds are considered debt not supported by taxes. For this debt, the Commonwealth has no direct or indirect pledge of tax revenues. However, in some cases, the Commonwealth has made a moral obligation pledge. A government's moral obligation pledge provides a deficiency make-up for bondholders should underlying project revenues prove insufficient. The mechanics involve funding a debt service reserve fund when the bonds are issued. If a revenue deficiency exists, reserve fund monies are used to pay bondholders. The issuer then informs the legislative body requesting that it replenish the reserve fund before subsequent debt service is due. The legislative body may, but is not legally required to, replenish the reserve fund. These bonds are considered to be moral obligation debt.

The following schedule presents the total long-term liabilities of the Commonwealth, and the portion of these amounts which are due within one year, as reported on the Government-wide Statement of Net Assets.

Total Long-Term Liabilities

	Amount Due Within One Year (11)	
(Dollars in Thousands)		
Primary Government:		
Governmental Activities:(1)		
General Obligation Bonds (7)		
9(b) Transportation Facilities (10)	\$ 43,733	\$ 8,535
9(b) Public Facilities (10)	410,669	33,060
9(c) Parking Facilities (10)	6,457	785
9(c) Transportation Facilities (2) (10)	107,034	10,126
Total General Obligation Bonds	567,893	52,506
Non-General Obligation Bonds - 9(d)		
Transportation Debt (3) (10)	1,936,944	103,265
Virginia Public Building Authority (2) (10)	956,495	70,900
Total Non-General Obligation Bonds	2,893,439	174,165
Other Long-Term Obligations:		
Pension Liability	452,550	-
Compensated Absences	303,479	150,663
Capital Lease Obligations	249,123	19,912
Regional Jail Financing Payable	18,252	1,598
Notes Payable	35,957	2,341
Installment Purchases Obligations	34,780	9,560
Industrial Development Authority Obligations	34,410	3,565
Other Liabilities	20,082	3,200
Total Other Long-Term Obligations	1,148,633	190,839
Total Governmental Activities (2) (10)	4,609,965	417,510
Business-Type Activities: (1) (6)		
Non-General Obligation Bonds - 9(d)		
Pocahontas Parkway Association Bonds (2)	432,563	-
Other Long-Term Obligations:		
Pension Liability	9,909	-
Compensated Absences	8,192	3,549
Installment Purchases Obligations	15,917	4,351
Tuition Benefits Payable	1,177,780	44,400
Lottery Prizes Payable	421,721	57,281
Total Other Long-Term Obligations	1,633,519	109,581
Total Business-Type Activities (2)	2,066,082	109,581
Total Primary Government	6,676,047	527,091

(Continued on next page)

Total Long-Term Liabilities

	Amount Due Within One Year (11)	
<i>(Dollars in Thousands)</i>		
Component Units:		
General Obligation Bonds (7)		
Higher Education Fund - 9(c) Bonds (2) (10)	349,185	31,281
Non-General Obligation Bonds		
Higher Education Institutions - 9(d) (6) (10)	538,207	24,496
Virginia College Building Authority	448,525	59,135
Innovative Technology Authority	9,965	620
Virginia Port Authority (4)	370,476	11,269
Virginia Housing Development Authority (2) (5)	4,750,653	436,659
Virginia Resources Authority (2) (5)	920,124	30,904
Virginia Public School Authority (5) (10)	2,113,059	145,363
Hampton Roads Sanitation District Commission (6)	142,046	11,454
Virginia Equine Center Foundation (6)	15,970	195
Virginia Biotechnology Research Park Authority (8)	98,600	3,780
Total Non-General Obligation Bonds	9,407,625	723,875
Other Long-Term Obligations:		
Pension Liability (9)	202,913	-
Compensated Absences	174,296	89,866
Capital Lease Obligations	52,364	3,243
Notes Payable (6)	606,984	63,804
Installment Purchase Obligations	17,844	6,359
Bond Anticipation Notes (6)	1,303	1,303
Other Liabilities (6)	293,304	31,459
Total Other Long-Term Obligations	1,349,008	196,034
Total Component Units	11,105,818	951,190
Total Long-Term Liabilities	\$ 17,781,865	\$ 1,478,281

1. Pursuant to GASB Statement No. 34, governmental activities include Internal Service Funds. Business-Type Activities are considered Enterprise Funds.
2. Net of unamortized discounts and/or premiums.
3. This debt includes \$864.7 million that is not supported by taxes.
4. This debt includes \$148.3 million that is not supported by taxes.
5. This debt is not supported by taxes; however, \$915.9 million from VHDA, \$345.4 million from VPSA, and \$704.7 million from VRA is considered moral obligation debt.
6. This debt is not supported by taxes.
7. Total general obligation debt of the Commonwealth is \$917.1 million.
8. This debt includes \$14.3 million that is not supported by taxes.
9. This includes pension obligations that do not relate to the Virginia Retirement System from Virginia Commonwealth University of \$9.2 million and Virginia Port Authority of \$2.5 million. It does not include pension obligations from fiduciary funds of \$1.6 million.
10. Net of deferral on debt defeasance.
11. Amounts include any amortized discounts, premiums, and deferrals.

Primary Government

Transportation Facilities Debt

Transportation Facilities Bonds include \$43,732,670 of 9(b) general obligation bonds, \$107,033,531 of 9(c) general obligation bonds, and \$1,936,944,136 of 9(d) revenue bonds. Principal and interest requirements for the current year totaled \$174,864,180. The Section 9(b) transportation facilities bonds represent Powhite Refunding Bonds. The Section 9(c) Transportation Facilities Bonds were issued to fund the construction and improvement of the Omer L. Hirst - Adelard L. Brault Expressway and the George P. Coleman Bridge. The Section 9(d) Transportation Facilities Bonds were issued to fund the construction of State Route 28, U.S. Route 58, the Northern Virginia Transportation District Program, and the Oak Grove Connector (Chesapeake). The interest rates for these bonds range from 2.00 percent to 7.25 percent and the issuance dates range from June 28, 1989, to November 1, 2000.

The General Obligation Bond, Series 2003A, for the Powhite Parkway Extension was issued on June 18, 2003 in the amount of \$40,370,000. Interest rate ranges from 2.50 percent to 5.50 percent. The proceeds of these bonds were used to defease Powhite Parkway Extension Transportation Facilities Revolving Bonds, Series 1993A.

The General Obligation Bonds, Series 2002 and 2003A, for the Omer L. Hirst – Adelard L. Brault Expressway were issued on October 23, 2002 and June 18, 2003 respectively. The Series 2002 debt is in the amount of \$24,615,000 and the series 2003A debt is in the amount of \$18,764,506. Interest rates range 2.50 percent to 5.50 percent. The proceeds of these bonds were used to defease Series 1996 and 1993(B) bonds.

The General Obligation Bond, Series 2002, for the Coleman Bridge was issued on October 23, 2002 in the amount of \$3,775,000. The interest rate is 4.00 percent. The proceeds of this bond were used to defease Series 1994 bonds.

The U.S. Route 58 Corridor Revenue Refunding Bonds, Series 2002B and Series 2003A were issued on November 19, 2002 and April 10, 2003 respectively. The Series 2002B Refunding debt is in the amount of \$70,670,000 and the series 2003A Refunding debt is in the amount of \$66,255,000. Interest rates range from 3.00 percent to 5.50 percent. The proceeds of these bonds were used to defease Series 1993(B) and 1993(A) bonds.

The Northern Virginia Transportation District Revenue and Refunding Bonds, Series 2002A, were issued on November 19, 2002 in the amount of \$153,035,000. The interest rate ranges from 3.00 percent to 5.25 percent. A portion of the proceeds was used to defease Series 1993C and 1995A bonds.

The Route 28 Project Revenue and Refunding Bonds, Series 2002, were issued on October 10, 2002 in the amount of \$120,643,667. The interest rate ranges from 2.00 percent to 5.32 percent. A portion of the proceeds was used to defease Series 1992 bonds.

The Commonwealth of Virginia Federal Highway Reimbursement Anticipation Note, Series 2002 9(d), was issued on September 27, 2002 in the amount of \$523,320,000. The interest rate ranges from 2.00 percent to 5.00 percent. Proceeds will be used to finance various capital transportation projects throughout the Commonwealth.

The following schedules detail the annual funding requirements necessary to amortize Transportation Facilities 9(b), 9(c) and 9(d) bonds:

9(b) TRANSPORTATION FACILITIES BONDS Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 8,535,000	\$ 3,174,370	\$ 11,709,370
2005	4,370,000	1,829,100	6,199,100
2006	4,620,000	1,588,750	6,208,750
2007	4,885,000	1,357,750	6,242,750
2008	5,130,000	1,113,500	6,243,500
2009-2013	17,140,000	1,743,750	18,883,750
Less:			
Deferral on Debt Defeasance	(947,330)	-	(947,330)
Total	\$ 43,732,670	\$ 10,807,220	\$ 54,539,890

9(c) TRANSPORTATION FACILITIES BONDS Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 10,126,463	\$ 4,589,209	\$ 14,715,672
2005	10,469,540	4,337,441	14,806,981
2006	10,775,117	3,957,561	14,732,678
2007	10,798,630	3,581,732	14,380,362
2008	10,844,756	3,191,150	14,035,906
2009-2013	27,344,000	11,853,031	39,197,031
2014-2018	23,170,000	5,396,231	28,566,231
2019-2023	9,415,000	980,925	10,395,925
Less:			
Unamortized Discount	(3,681,379)	-	(3,681,379)
Deferral on Debt Defeasance	(2,228,596)	-	(2,228,596)
Total	\$ 107,033,531	\$ 37,887,280	\$ 144,920,811

9(d) TRANSPORTATION FACILITIES DEBT
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2004	\$ 103,265,000	\$ 93,510,772	\$ 196,775,772
2005	119,055,000	88,353,546	207,408,546
2006	126,740,000	83,028,811	209,768,811
2007	132,415,000	76,982,474	209,397,474
2008	138,860,000	70,476,945	209,336,945
2009-2013	695,910,000	244,528,101	940,438,101
2014-2018	335,205,000	121,879,576	457,084,576
2019-2023	217,035,354	42,378,194	259,413,548
2024-2028	71,452,586	5,524,456	76,977,042
2029-2033	7,475,728	-	7,475,728
Add:			
Accretion on Capital Appreciation Bonds	1,346,125	-	1,346,125
Less:			
Deferral on Debt Defeasance	(11,815,657)	-	(11,815,657)
Total	\$ 1,936,944,136	\$ 826,662,875	\$ 2,763,607,011

Pocahontas Parkway Association Bonds

The \$168,862,562 Pocahontas Parkway Association Route 895 Connector Toll Road Revenue Bonds, Senior Current Interest Bonds, Series 1998A were issued on July 9, 1998. Bonds mature in annual installments on August 15 in the years 2005 through 2011, and 2026 through 2028. Interest is payable on each February 15 and August 15 beginning in 1999 at rates varying from 5.0 percent to 5.5 percent.

The Pocahontas Parkway Association Route 895 Connector Toll Road Revenue Bonds, Senior Capital Appreciation Bonds, Series 1998B were issued on July 9, 1998 in the principal amount of \$148,310,627 and the maturity value of \$690,200,000. Bonds mature in annual installments on August 15 in the years 2012 through 2025, and 2029 through 2035. The Senior Capital Appreciation Bonds were issued at a discount to yield, approximately, 5.50 percent to 5.95 percent. Principal accreted for the year ended June 30, 2003, was \$10,992,033.

The Pocahontas Parkway Association Route 895 Connector Toll Road Revenue Bonds, First Tier Subordinate Capital Appreciation Bonds, Series 1998C were issued on July 9, 1998 in the principal amount of \$35,867,236 and the maturity value of \$137,300,000. Bonds mature in annual installments on August 15 in the years 2005 through 2035. The First Tier Subordinate Capital Appreciation Bonds were issued at a discount to yield, approximately, 5.40 percent to 6.25 percent. Principal accreted for the year ended June 30, 2003, was \$2,726,404.

The Second Tier Subordinate Toll Road Revenue Bond, Series 1998D was issued on July 9, 1998 in the principal amount of \$18,000,000 to the Commonwealth Transportation Board (CTB). The Series 1998D Bond was issued in exchange for \$18,000,000 loaned to the Association for paying certain non-construction costs of the Project, and shall mature on August 15, 2028. The Series 1998D Bond shall bear interest at a floating rate equal to the Commonwealth's Transportation Trust Fund Earnings Rate, compounded semiannually. The

Series 1998D Bond shall bear interest from the date that amounts are advanced from the Series 1998D Bond Proceeds Account for application to non-construction costs of the Project on the amount of such advances until paid. Also earnings on the Series 1998D Bond Proceeds Account shall be transferred monthly to the Virginia Department of Transportation. The original proceeds disbursed for non-construction costs as of June 30, 2003, were \$17,985,323 and accrued interest was \$4,951,104. The monthly interest rate at June 30, 2003, was 8.93 percent.

During 2002, the Association issued a non-interest bearing Second Tier Subordinate Bond, Series 2001A to the Commonwealth for \$443,386. This amount represented previously incurred operating expenses for which the Association was to reimburse the Commonwealth. This Bond is being issued on a parity in terms of payment with other Second Tier Subordinate Bonds. This Bond is subordinate to the Senior Bonds and First Tier Subordinate Bonds and will be payable only after all payments of principal, accreted value, premium, if any, and interest on the Senior Bonds and First Tier Subordinate Bonds then due have been paid.

The Route 895 Connector Toll Road Revenue Bonds are special limited obligations of the Association, secured by a gross revenue pledge and payable solely from revenues and other property included in the Trust Estate. The Association is a private, non-stock, nonprofit corporation and has no taxing powers. Neither the 1998 nor the 2001 Bonds are a debt of the Commonwealth, the Virginia Department of Transportation, the CTB, or any other agency, instrumentality or political subdivision of the Commonwealth, moral or otherwise. And neither the full faith and credit nor taxing power of the Commonwealth, the Department, the CTB, or any agency is pledged to the payment of the principal of and interest of the 1998 nor 2001 Bonds.

The following schedule details the annual funding requirements necessary to repay the Series 1998A, 1998B, 1998C, 1998D, and 2001A bonds:

POCAHONTAS PARKWAY ASSOCIATION Debt Service Requirements to Maturity			
<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ -	\$ 9,121,250	\$ 9,121,250
2005	-	9,121,250	9,121,250
2006	5,300,000	9,046,250	14,346,250
2007	8,000,000	8,841,250	16,841,250
2008	9,000,000	8,548,500	17,548,500
2009-2013	69,700,000	36,427,125	106,127,125
2014-2018	109,300,000	32,037,500	141,337,500
2019-2023	150,800,000	32,037,500	182,837,500
2024-2028	195,200,000	27,978,500	223,178,500
2029-2033	279,641,443	1,141,250	280,782,693
2034-2038	188,700,000	-	188,700,000
Less:			
Unamortized Discount	(841,147)	-	(841,147)
Unaccrued Capital Appreciation Bonds	(582,237,502)	-	(582,237,502)
Total	\$ 432,562,794	\$ 174,300,375	\$ 606,863,169

Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 1993 B, Series 1996, Series 1996 refunding, Series 1997, Series 1998 refunding, Series 1998 bonds, Series 1999A, 2002 Refunding, and 2003A Refunding. All bonds were issued to fund construction projects for higher educational institutions, mental health, and/or park facilities. The Series 2003A bonds were issued to advance refund outstanding Series 1993A and B, Series 1994, and Series 1996 bonds. Principal and interest requirements for the current year totaled \$47,698,502. The interest rates for all bonds range from 2.5 percent to 5.7 percent and the issuance dates range from June 15, 1993, to June 1, 2003. The following schedule details the annual funding requirements necessary to repay these bonds:

9(b) PUBLIC FACILITIES BONDS Debt Service Requirements to Maturity			
<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 33,060,000	\$ 19,488,346	\$ 52,548,346
2005	33,185,000	18,156,584	51,341,584
2006	33,795,000	16,661,609	50,456,609
2007	33,605,000	15,139,319	48,744,319
2008	33,475,000	13,538,556	47,013,556
2009-2013	164,730,000	43,995,614	208,725,614
2014-2018	74,540,000	9,795,000	84,335,000
2019-2023	12,625,000	1,508,688	14,133,688
Less:			
Deferral on Debt Defeasance	(8,346,483)	-	(8,346,483)
Total	\$ 410,668,517	\$ 138,283,716	\$ 548,952,233

Parking Facilities Bonds

Section 9(c) general obligation bonds consist of Parking Facilities Bonds, Series 1996, 2002 Refunding, and 2003A Refunding bonds. The Series 1996 bond was issued to fund the renovation of the Seventh and Marshall Street parking deck. The Series 2002 and 2003A bonds were issued to advance refund outstanding Series 1996 and Series 1993 Refunding bonds. The interest rates for these bonds range from 2.5 percent to 5.7 percent and the issuance dates range from June 6, 1996, to June 1, 2003. Current year principal and interest requirements totaled \$1,153,126.

The following schedule details the annual funding requirements necessary to repay these bonds:

9(c) PARKING FACILITIES BONDS Debt Service Requirements to Maturity			
<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 785,270	\$ 335,291	\$ 1,120,561
2005	805,649	311,490	1,117,139
2006	854,572	267,373	1,121,945
2007	890,042	224,026	1,114,068
2008	958,715	178,886	1,137,601
2009-2013	2,545,513	280,435	2,825,948
2014-2018	65,000	5,000	70,000
Less:			
Deferral on Debt Defeasance	(448,089)	-	(448,089)
Total	\$ 6,456,672	\$ 1,602,501	\$ 8,059,173

Virginia Public Building Authority

The Virginia Public Building Authority (VPBA) has issued Section 9(d) revenue bonds for the purpose of constructing, improving, furnishing, maintaining, and acquiring public buildings for the use of the Commonwealth and also to reimburse localities, regional jail authorities or other combination of localities under the Regional Jail Financing Program. The VPBA bonds, Series 2002A and 2003A, were issued on September 1, 2002, and February 1, 2003, respectively. The Series 2002A bonds were in the amount of \$55,000,000 and the Series 2003A bonds were in the amount of \$38,810,000. The interest rates for all bonds range from 2.5 percent to 6.6 percent and the issuance dates range from February 6, 1992, to February 1, 2003. Current year principal and interest requirements totaled \$113,138,525. The following schedule details the annual funding requirements necessary to repay these bonds:

9(d) VIRGINIA PUBLIC BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 70,900,000	\$ 43,234,016	\$ 114,134,016
2005	61,220,000	40,243,281	101,463,281
2006	66,315,000	37,828,522	104,143,522
2007	69,355,000	35,201,562	104,556,562
2008	72,045,000	32,431,850	104,476,850
2009-2013	357,030,000	116,452,243	473,482,243
2014-2018	225,990,000	44,360,235	270,350,235
2019-2023	65,760,000	5,926,738	71,686,738
Less:			
Unamortized Discount	(21,014,198)	-	(21,014,198)
Deferral on Debt Defeasance	(11,105,407)	-	(11,105,407)
Total	\$ 956,495,395	\$ 355,678,447	\$ 1,312,173,842

Regional Jail Financing Program

The Regional Jail Financing Program of the Commonwealth of Virginia Treasury Board was created during the 1993 Session of the General Assembly to establish a method of reimbursing localities, regional jail authorities or other combination of localities for a portion of the capital and financing costs of a jail project, made pursuant to Sections 53.1-80, 53.1-81, or 53.1-82 of the *Code of Virginia*. The General Assembly, upon recommendation from the Department of Planning and Budget, may determine to reimburse localities for approved capital costs over time through a contractual Reimbursement Agreement between the localities or authority and the Treasury Board. The Board of Corrections determines the amount of reimbursable capital costs. If approved for reimbursement over time, the Treasury Board determines the amount of reimbursable financing costs and calculates the periodic reimbursement payments.

In 1996, the General Assembly adopted legislation that authorized funding of jail project reimbursements through bonds issued by the Virginia Public Building Authority (VPBA). As of June 30, 1998, all future jail reimbursements were approved for funding through the VPBA as opposed to the Treasury Board. All reimbursements, whether up front or over time, are subject to appropriation by the General Assembly.

The following schedule details the annual funding requirements necessary to repay these obligations:

REGIONAL JAILS FINANCING Financial Obligations to Maturity			
<i>Calendar Year Obligations</i>	<i>Capital Costs</i>	<i>Financing Costs</i>	<i>Total</i>
2004	\$ 1,598,126	\$ 1,034,951	\$ 2,633,077
2005	1,624,198	1,009,103	2,633,301
2006	1,655,357	981,369	2,636,726
2007	1,681,599	951,891	2,633,490
2008	1,712,928	919,166	2,632,094
2009-2013	9,142,895	4,032,106	13,175,001
2014-2018	837,165	(646,926)	190,239
Total	\$ 18,252,268	\$ 8,281,660	\$ 26,533,928

Industrial Development Authority Obligations

In fiscal year 2002, the Newport News Industrial Development Authority (IDA) issued Section 9(d) revenue bonds to pay a portion of the cost of construction and equipping of the Virginia Advanced Shipbuilding and Carrier Integration Center for use by the Newport News Shipbuilding and Dry Dock Company. The Commonwealth's obligation is set out in a payment agreement between Newport News IDA and the Treasury Board, in which the Treasury Board agrees to make payments equal to the debt service from amounts appropriated by the General Assembly. The interest rates for these bonds range from 2.75 percent to 5.03 percent and the issue date is July 27, 2000. Current year principal and interest requirements totaled \$5,292,809. The following schedule details the annual funding requirements necessary to repay these bonds:

NEWPORT NEWS INDUSTRIAL DEVELOPMENT AUTHORITY Debt Service Requirements to Maturity			
<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 3,565,000	\$ 1,727,809	\$ 5,292,809
2005	3,745,000	1,545,296	5,290,296
2006	3,940,000	1,352,190	5,292,190
2007	4,150,000	1,144,390	5,294,390
2008	4,370,000	920,545	5,290,545
2009-2013	14,640,000	1,237,225	15,877,225
Total	\$ 34,410,000	\$ 7,927,455	\$ 42,337,455

Component Units

Higher Education Institution Bonds

Higher Educational Institution Bonds are comprised of both 9(c) general obligation bonds and 9(d) revenue bonds. Section 9(d) bonds are from several sources as shown on the following schedule (in thousands):

College and university bonds backed by pledge of general revenue or revenue from specific revenue-producing capital projects	\$ 420,712
College and university debt backed exclusively by pledged revenues of an institution	117,495
Total Higher Educational Institutional 9(d) debt	\$ 538,207

The interest rates for these bonds range from 2.25 percent to 9.25 percent and the issuance dates range from July 17, 1973, to June 1, 2003. The following schedules detail the annual funding requirements necessary to amortize Higher Educational Institution 9(c) and 9(d) bonds:

9(c) HIGHER EDUCATIONAL INSTITUTION BONDS
Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 33,699,267	\$ 16,141,579	\$ 49,840,846
2005	30,034,811	15,060,302	45,095,113
2006	28,375,311	13,728,705	42,104,016
2007	27,966,328	12,500,780	40,467,108
2008	29,046,529	11,249,357	40,295,886
2009-2013	120,111,487	37,742,180	157,853,667
2014-2018	63,780,000	14,609,686	78,389,686
2019-2023	23,730,000	3,051,575	26,781,575
2024-2028	1,590,000	75,525	1,665,525
Less:			
Unamortized Discount	(2,439,467)	-	(2,439,467)
Deferral on Debt Defeasance	(6,709,000)	-	(6,709,000)
Total	<u>\$ 349,185,266</u>	<u>\$ 124,159,689</u>	<u>\$ 473,344,955</u>

9(d) HIGHER EDUCATIONAL INSTITUTION BONDS
Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 24,496,259	\$ 25,223,346	\$ 49,719,605
2005	17,839,319	24,238,109	42,077,428
2006	19,272,472	23,376,368	42,648,840
2007	20,900,721	22,424,271	43,324,992
2008	21,644,067	21,407,774	43,051,841
2009-2013	112,369,183	92,127,604	204,496,787
2014-2018	93,154,390	63,550,697	156,705,087
2019-2023	75,895,211	41,828,991	117,724,202
2024-2028	33,770,000	26,905,988	60,675,988
2029-2033	94,130,000	17,551,250	111,681,250
2034-2038	27,340,000	820,200	28,160,200
Less:			
Deferral on Debt Defeasance	(2,604,500)	-	(2,604,500)
Total	<u>\$ 538,207,122</u>	<u>\$ 359,454,598</u>	<u>\$ 897,661,720</u>

9(d) VIRGINIA COLLEGE BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 59,135,000	\$ 19,927,697	\$ 79,062,697
2005	50,940,000	18,896,971	69,836,971
2006	29,620,000	16,222,559	45,842,559
2007	30,965,000	14,878,292	45,843,292
2008	21,620,000	13,471,110	35,091,110
2009-2013	84,740,000	54,372,373	139,112,373
2014-2018	103,620,000	31,142,313	134,762,313
2019-2023	67,885,000	8,575,612	76,460,612
Total	<u>\$ 448,525,000</u>	<u>\$ 177,486,927</u>	<u>\$ 626,011,927</u>

Innovative Technology Authority

The Innovative Technology Authority (ITA) has issued Taxable Lease Revenue Bonds, Series 1989, and Series 1997 refunding. The Series 1989 bonds were issued to cover a portion of the costs related to the construction of a software development center and office building. Series 1997 bonds were issued to advance refund \$11.2 million of the outstanding 1989 bonds.

The 1989 bonds had an average interest rate of 10.3 percent and the 1997 bonds have an average interest rate of 7.4 percent. The bonds were issued on March 1, 1989, and May 1, 1997, respectively. The following schedule details the annual funding requirements necessary to amortize ITA bonds:

9(d) INNOVATIVE TECHNOLOGY AUTHORITY BONDS
Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 620,000	\$ 736,587	\$ 1,356,587
2005	710,000	692,691	1,402,691
2006	700,000	641,855	1,341,855
2007	790,000	591,525	1,381,525
2008	875,000	534,013	1,409,013
2009-2013	5,050,000	1,653,322	6,703,322
2014-2018	1,220,000	91,745	1,311,745
Total	<u>\$ 9,965,000</u>	<u>\$ 4,941,738</u>	<u>\$ 14,906,738</u>

Governmental Funds – Discrete Component Units

Virginia Port Authority

The Virginia Port Authority (VPA) has issued Section 9(d) revenue bonds and notes pursuant to powers provided to its Board of Commissioners by the *Code of Virginia*. The interest rates for these bonds range from 4.0 percent to 6.0 percent and the issuance dates range from October 23, 1996, to June 26, 2003. Series 1998 bonds were issued to advance refund \$71.0 million of the outstanding 1988 bonds. The following schedule details the annual funding requirements necessary to amortize VPA bonds:

9(d) VIRGINIA PORT AUTHORITY DEBT
Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 11,268,838	\$ 16,119,591	\$ 27,388,429
2005	13,245,058	16,228,587	29,473,645
2006	15,367,265	15,834,443	31,201,708
2007	16,623,547	15,098,974	31,722,521
2008	18,546,726	14,973,107	33,519,833
2009-2013	62,172,108	67,456,249	129,628,357
2014-2018	63,505,165	57,484,145	120,989,310
2019-2023	66,558,123	34,966,381	101,524,504
2024-2028	85,204,738	15,556,203	100,760,941
2029-2033	17,984,086	2,459,619	20,443,705
Total	<u>\$ 370,475,654</u>	<u>\$ 256,177,299</u>	<u>\$ 626,652,953</u>

Proprietary Funds – Discrete Component Units

The Virginia Housing Development Authority (VHDA), the Virginia Resources Authority (VRA) and the Virginia Public School Authority (VPSA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 2.00 percent to 10.88 percent and the origination dates range from April 10, 1977, to May 21, 2003. The following schedules detail the annual funding requirements necessary to amortize these bonds:

9(d) VIRGINIA HOUSING DEVELOPMENT AUTHORITY BONDS
Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 436,658,661	\$ 246,301,636	\$ 682,960,297
2005	295,405,227	232,355,767	527,760,994
2006	266,781,518	217,242,309	484,023,827
2007	247,666,179	203,393,068	451,059,247
2008	232,056,407	190,491,229	422,547,636
2009-2013	990,015,451	780,317,951	1,770,333,402
2014-2018	944,004,348	504,487,209	1,448,491,557
2019-2023	536,216,741	279,760,304	815,977,045
2024-2028	378,036,787	144,940,572	522,977,359
2029-2033	122,711,642	77,113,453	199,825,095
2034-2038	155,710,000	40,917,765	196,627,765
2039-2043	115,420,000	15,325,262	130,745,262
2044-2048	44,700,000	1,232,615	45,932,615
Less:			
Unamortized			
Discount	(15,425,626)	-	(15,425,626)
Add:			
Accretion on			
Zero Coupon			
Bonds	695,665	-	695,665
Total	<u>\$ 4,750,653,000</u>	<u>\$ 2,933,879,140</u>	<u>\$ 7,684,532,140</u>

9(d) VIRGINIA RESOURCES AUTHORITY BONDS
Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 35,958,675	\$ 43,184,731	\$ 79,143,406
2005	37,686,510	42,146,427	79,832,937
2006	38,618,439	40,635,176	79,253,615
2007	39,934,654	39,116,279	79,050,933
2008	41,565,437	37,411,698	78,977,135
2009-2013	225,433,618	157,042,741	382,476,359
2014-2018	232,138,382	102,425,773	334,564,155
2019-2023	186,913,251	51,083,316	237,996,567
2024-2028	84,553,860	21,838,755	106,392,615
2029-2033	40,372,175	10,063,144	50,435,319
2034-2038	24,910,000	2,466,263	27,376,263
Add:			
Unamortized			
Premium	4,241,730	-	4,241,730
Less:			
Unamortized			
Discounts			
and Issuance			
Expenses	(15,716,161)	-	(15,716,161)
Unaccreted			
Capital			
Appreciation			
Bonds	(56,487,052)	-	(56,487,052)
Total	<u>\$ 920,123,518</u>	<u>\$ 547,414,303</u>	<u>\$ 1,467,537,821</u>

9(d) VIRGINIA PUBLIC SCHOOL AUTHORITY BONDS
Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 148,945,000	\$ 104,268,570	\$ 253,213,570
2005	153,745,000	97,388,380	251,133,380
2006	152,575,000	89,830,581	242,405,581
2007	149,930,000	82,215,581	232,145,581
2008	139,330,000	74,726,564	214,056,564
2009-2013	634,425,000	270,633,530	905,058,530
2014-2018	496,612,063	127,655,809	624,267,872
2019-2023	246,700,000	28,381,259	275,081,259
2024-2028	18,035,000	1,559,300	19,594,300
2029-2033	420,000	9,713	429,713
Less:			
Deferral on			
Debt Defeasance	(27,658,100)	-	(27,658,100)
Total	<u>\$ 2,113,058,963</u>	<u>\$ 876,669,287</u>	<u>\$ 2,989,728,250</u>

The Hampton Roads Sanitation District Commission issued bonds under a Master Trust Indenture and a Trust Agreement dated December 1, 1993, and March 1, 2003. The original interest cost for these bonds ranged from 2.5 percent to 4.98 percent. The following schedule details the annual funding requirements necessary to amortize these bonds:

HAMPTON ROADS SANITATION DISTRICT COMMISSION
Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 11,454,000	\$ 6,039,000	\$ 17,493,000
2005	10,585,000	5,544,000	16,129,000
2006	10,926,000	5,072,000	15,998,000
2007	11,391,000	4,576,000	15,967,000
2008	7,996,000	4,146,000	12,142,000
2009-2013	41,530,000	15,341,000	56,871,000
2014-2018	25,674,000	7,379,000	33,053,000
2019-2023	18,975,000	3,129,000	22,104,000
2024-2028	3,515,000	88,000	3,603,000
Total	<u>\$ 142,046,000</u>	<u>\$ 51,314,000</u>	<u>\$ 193,360,000</u>

The Virginia Equine Center Foundation issued Series 2001 IDA of Rockbridge County Virginia Horse Center Revenue Bonds. Coupon interest rates range from 6.125 percent to 8.0 percent.

VIRGINIA EQUINE CENTER FOUNDATION
Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 195,000	\$ 1,068,962	\$ 1,263,962
2005	205,000	1,055,353	1,260,353
2006	1,535,000	1,000,612	2,535,612
2007	515,000	935,269	1,450,269
2008	3,135,000	4,094,109	7,229,109
2009-2013	4,330,000	2,844,463	7,174,463
2014-2018	6,055,227	1,085,896	7,141,123
Total	<u>\$ 15,970,227</u>	<u>\$ 12,084,664</u>	<u>\$ 28,054,891</u>

The Virginia Biotechnology Research Park Authority issued Series 1996, 1998, 1999A, 1999B, and 2001 Commonwealth of Virginia Lease Revenue bonds. Coupon interest rates range from 4.0 percent to 6.4 percent.

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY			
Debt Service Requirements to Maturity			
<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 3,780,000	\$ 4,903,612	\$ 8,683,612
2005	3,975,000	4,717,394	8,692,394
2006	4,185,000	4,516,773	8,701,773
2007	4,405,000	4,303,530	8,708,530
2008	4,620,000	4,092,598	8,712,598
2009-2013	27,440,000	16,742,992	44,182,992
2014-2018	30,860,000	8,756,939	39,616,939
2019-2023	19,335,000	1,831,044	21,166,044
Total	<u>\$ 98,600,000</u>	<u>\$ 49,864,882</u>	<u>\$ 148,464,882</u>

Total principal outstanding at June 30, 2003, on all Component Unit bonds amounted to \$9.8 billion.

The following schedule summarizes the changes in long-term liabilities:

Schedule of Changes in Long-term Debt and Obligations (1) (3)

(Dollars in Thousands)

	Balance July 1, 2002 as restated	Issuances and Other Increases	Retirements and Other Decreases	Balance June 30, 2003	Due Within One Year
Primary Government					
Governmental Activities:					
Long-term Debt Bearing the Pledge of the					
Full Faith and Credit of the Commonwealth:					
General Obligation Bonds - 9(b) and 9(c):					
Public Facilities Bonds	\$ 399,005	\$ 165,265	\$ (153,601)	\$ 410,669	\$ 33,060
Parking Facilities Bonds	9,605	6,090	(9,238)	6,457	785
Transportation Facilities Bonds	170,687	88,665	(108,585)	150,767	18,661
Total General Obligation Bonds	<u>579,297</u>	<u>260,020</u>	<u>(271,424)</u>	<u>567,893</u>	<u>52,506</u>
Long-term Debt / Obligations Not Bearing the Pledge					
of the Full Faith and Credit of the Commonwealth:					
Debt:					
Non-General Obligation Bonds - 9(d)					
Transportation Facilities Bonds	1,418,900	935,270	(417,226)	1,936,944	103,265
Virginia Public Building Authority Bonds	958,141	101,001	(102,647)	956,495	70,900
Regional Jails Financing Payable	28,974	-	(10,722)	18,252	1,598
Industrial Development Authority Obligations	37,800	-	(3,390)	34,410	3,565
Installment Purchases	32,182	12,501	(9,903)	34,780	9,560
Notes Payable - Virginia Public Broadcasting Board	21,960	-	(1,955)	20,005	2,055
Notes Payable - Transportation	12,325	-	-	12,325	-
Notes Payable - Aviation	-	6,600	(2,973)	3,627	286
Obligations:					
Compensated Absences	306,972	4,044	(7,537)	303,479	150,663
Capital Lease Obligations (2)	203,210	60,096	(14,183)	249,123	19,912
Pension Liability	302,664	149,886	-	452,550	-
Other	20,284	-	(202)	20,082	3,200
Total Long-Term Debt / Obligations Not Bearing the Pledge	<u>3,343,412</u>	<u>1,269,398</u>	<u>(570,738)</u>	<u>4,042,072</u>	<u>365,004</u>
of the Full Faith and Credit of the Commonwealth	<u>3,922,709</u>	<u>1,529,418</u>	<u>(842,162)</u>	<u>4,609,965</u>	<u>417,510</u>
Total Governmental Activities					
Business-type Activities:					
Long-term Debt / Obligations Not Bearing the Pledge					
of the Full Faith and Credit of the Commonwealth:					
Debt:					
Non-General Obligation Bonds - 9(d)					
Pocahontas Parkway Association Bonds	418,850	13,713	-	432,563	-
Installment Purchases	17,861	2,116	(4,060)	15,917	4,351
Obligations:					
Compensated Absences	8,084	3,992	(3,884)	8,192	3,549
Pension Liability	6,389	3,520	-	9,909	-
Lottery Prizes Payable	449,694	-	(27,973)	421,721	57,281
Tuition Benefits Payable	781,827	395,953	-	1,177,780	44,400
Other	112	-	(112)	-	-
Total Business-Type Activities	<u>1,682,817</u>	<u>419,294</u>	<u>(36,029)</u>	<u>2,066,082</u>	<u>109,581</u>
Total Primary Government	<u>\$ 5,605,526</u>	<u>\$ 1,948,712</u>	<u>\$ (878,191)</u>	<u>\$ 6,676,047</u>	<u>\$ 527,091</u>

(1) Pursuant to GASB Statement No. 34, governmental activities include Internal Service Funds. Business-Type Activities are considered Enterprise Funds.

(2) The beginning balance has been increased from the prior year to reflect the restatement of capital lease obligations.

(3) Payments on bonded debt that pertain to the Commonwealth's governmental activities are made through the debt service funds. Payments for installment purchases, compensated absences, capital leases, pension, and other obligations that pertain to the Commonwealth's governmental activities are made through the general and special revenue funds. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the totals for governmental activities schedules above. Enterprise funds, or business-type activities, are self supporting funds. Accordingly, long-term liabilities are paid from each respective fund.

Schedule of Changes in Long-term Debt and Obligations

(Dollars in Thousands)

	Balance July 1, 2002 as restated	Issuances and Other Increases	Retirements and Other Decreases	Balance June 30, 2003	Due Within One Year
Component Units					
Long-term Debt Bearing the Pledge of the					
Full Faith and Credit of the Commonwealth:					
General Obligation Bonds - Higher Education 9(c):	\$ 376,462	\$ 143,005	\$ (170,282)	\$ 349,185	\$ 31,281
Long-Term Debt / Obligations Not Bearing the Pledge					
of the Full Faith and Credit of the Commonwealth:					
Debt:					
Bonds	10,160,088	1,934,016	(2,686,479)	9,407,625	723,875
Installment Purchase Obligations	23,347	4,844	(10,347)	17,844	6,359
Capital Lease Obligations	45,810	10,703	(4,149)	52,364	3,243
Notes Payable	494,689	195,107	(82,812)	606,984	63,804
Obligations:					
Compensated Absences	182,603	79,328	(87,635)	174,296	89,866
Pension Liability	136,708	67,076	(871)	202,913	-
Bond Anticipation Notes	895	3,070	(2,662)	1,303	1,303
Other (1)	337,214	216,230	(260,140)	293,304	31,459
Total Component Units	<u>\$ 11,757,816</u>	<u>\$ 2,653,379</u>	<u>\$ (3,305,377)</u>	<u>\$ 11,105,818</u>	<u>\$ 951,190</u>

(1) The beginning balance has been increased from the prior year by higher education component units to reflect restatements.

Bond Defeasance

Primary Government

In October 2002, the Commonwealth issued \$223,730,000 of General Obligation Bonds, Series 2002 with a true interest cost (TIC) of 3.29573 percent. These bonds were issued to finance certain capital projects (\$21,360,000) and to advance refund certain outstanding bonds (\$202,370,000). The bonds that were refunded include \$11,995,000 of outstanding Higher Educational Institution Refunding Bonds, Series 1992C, \$4,940,000 of outstanding Higher Educational Institution Bonds, Series 1992D, \$18,420,000 of outstanding Higher Educational Institution Bonds, Series 1993A, \$3,240,000 of outstanding Higher Educational Institution Bonds, Series 1993B, \$20,000,000 of outstanding Public Facilities Bonds, Series 1993A, \$50,000,000 of outstanding Public Facilities Bonds, Series 1993B, \$30,240,000 of outstanding Commonwealth of Virginia General Obligation Bonds, Series 1994, \$11,780,000 of outstanding Commonwealth of Virginia General Obligation Bonds, Series 1995, and \$52,540,000 of outstanding Commonwealth of Virginia General Obligation Bonds, Series 1996 (the "Refunded Bonds"). The net proceeds from the sale of the refunding portion of the bonds of \$220,520,332 (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the Refunded Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$17,365,332. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt or the new debt, whichever is shorter. The debt defeasance resulted in an accounting gain of \$785,000 as a result of market conditions at the time of sale. Total debt service payments over the next 14 years will

be reduced by \$10,606,711, resulting in an economic gain of \$10,929,902 discounted at the rate of 3.1928 percent.

In October 2002, the Commonwealth issued \$83,820,000 in Transportation Contract Revenue Refunding Bonds Series 2002, with a true interest cost (TIC) of 4.484 percent to advance refund \$86,635,000 in Transportation Contract Revenue Refunding Bonds, Series 1992. The net proceeds of \$88,895,498 (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the Refunded Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$2,260,498. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt or the new debt, whichever is shorter. Total debt service payments over the next 15 years will be reduced by \$20,403,174 resulting in an economic gain of \$14,820,663 discounted at the rate of 4.4289860 percent.

In November, 2002 the Commonwealth issued \$153,035,000 in Transportation Revenue Refunding Bonds Series 2002(A) and \$70,670,000 in Transportation Revenue Refunding Bonds Series 2002(B) with a true interest cost (TIC) of 4.180 percent. The Series 2002(A) bonds were issued to finance a portion of the costs of the Northern Virginia Transportation District Program and to advance refund \$100,630,000 in Transportation Revenue Bonds, Series 1993(C) and \$7,520,000 in Transportation Revenue Bonds, Series 1995(A). The Series 2002(B) bonds were issued to advance refund \$72,650,000 in Transportation Revenue bonds, Series 1993(B). The net proceeds from the sale of the refunding portion of the bonds of \$188,137,561 (after payment of

underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the Refunded Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$7,337,561. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt or the new debt, whichever is shorter. Total debt service payments over the next 16 years will be reduced by \$11,922,285 resulting in an economic gain of \$11,224,871 discounted at the rate of 3.991545 percent.

In February 2003, the Virginia Public Building Authority issued \$38,810,000 State Building Revenue Bonds Series 2003 A. A portion of the proceeds refunded \$33,830,000 of Series 1993 A bonds. Bond proceeds of \$31,667,351 were placed with an escrow agent to provide for the redemption of the bonds. An additional amount of \$3,200,000 in interest earnings on the original 1993 A bond proceeds was also placed in escrow to complete the redemption. The redemption date of the bonds is August 1, 2003. The total debt service payments over the life of the bonds have been reduced by \$2,899,400 resulting in an economic gain (savings) of \$2,815,377 discounted at 3.181724 percent. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," the difference between the reacquisition price and the net carrying amount of the bonds defeased with refunding debt is amortized as a component of Interest on Bonds over the remaining life of the refunded debt. Therefore, Bonds Payable, as reflected on the government-wide statements, has been reduced by \$11,105,406 to reflect the remaining deferral on debt defeasance at June 30, 2003.

In April, 2003, the Commonwealth issued \$66,255,000 in Transportation Revenue Refunding Bonds Series 2003(A), with a true interest cost (TIC) of 3.002 percent to advance refund \$69,565,000 in Transportation Revenue Bonds, Series 1993(A). The net proceeds of \$72,714,399 (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the Refunded Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$3,149,399. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt or the new debt, whichever is shorter. Total debt service payments over the next 9 years will be reduced by \$6,142,452 resulting in an economic gain of \$6,003,816 discounted at the rate of 2.964 percent.

In June 2003, the Commonwealth issued \$178,155,000 of General Obligation Bonds, Series 2003A with a true interest cost (TIC) of 2.689822 percent. These bonds were issued to finance certain capital projects

(\$50,400,000) and to advance refund certain outstanding bonds (\$127,755,000). The bonds that were refunded include \$10,745,000 of outstanding Higher Educational Institution Refunding Bonds, Series 1993A, \$44,270,000 of outstanding Transportation Facilities Refunding Bonds, Series 1993A, and \$83,290,000 of outstanding Commonwealth of Virginia General Obligation Refunding Bonds, Series 1993B (the "Refunded Bonds"). The net proceeds from the sale of the refunding portion of the bonds of \$141,632,297 (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the Refunded Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$3,327,297. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt or the new debt, whichever is shorter. The debt defeasance resulted in an accounting gain of \$10,550,000. Total debt service payments over the next 19 years will be reduced by \$15,569,262 resulting in an economic gain of \$12,845,275 discounted at the rate of 2.648417 percent.

Component Units

In March 2003, the University of Virginia (Major Component Unit) issued \$82,010,000 in The Rector and Visitors of the University of Virginia Series 2003A Tax-Exempt Variable Rate Bonds (Refunding Portion). This bond issue was used to advance refund \$45,670,000 in University Series 1993B, \$32,370,000 in University Series 1993A, and \$1,830,000 in Commonwealth of Virginia Higher Educational Institution Bonds, Series 1992B (Taxable). The net proceeds of \$81,718,000 (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the Refunded Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$1,848,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt or the new debt, whichever is shorter. The refunding resulted in an economic gain of \$11.2 million discounted at the rate of 3.000 percent.

In March 2003, James Madison University (Nonmajor Component Unit) issued \$10,000,000 in General Revenue Pledge Refunding Bonds, Series 2002 for a current refunding of \$9,525,000 in General Revenue Pledge Bonds, Series 1993. The reacquisition price exceeded the net carrying amount of the old debt by \$416,419. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt or the new debt, whichever is shorter. The refunding resulted in an economic gain of \$1,079,178 discounted at the rate of 3.017 percent and a reduction of \$1,244,577 in future debt service payments.

In April 2003, George Mason University (Nonmajor Component Unit) issued \$4,860,000 in General Revenue Bonds, Series 2003 to advance refund \$4,305,000 in General Revenue Pledge Bonds, Series 1995. The net proceeds of \$4,812,413 (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the Refunded Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$507,413. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt or the new debt, whichever is shorter.

During the year ended June 30, 2003, two localities issued bonds to refund certain callable maturities of the Henrico County and City of Chesapeake General Obligation Bonds, Series 1993 and 1995 respectively. The proceeds were placed in an irrevocable trust with an escrow agent to pay debt service on the advance refunded local school bonds and the Virginia Public School Authority's corresponding Special Obligation School Financing Bonds totaling \$97,000,000. These bonds were advance refunded to their earliest call date.

During the year ended June 30, 2003, the Virginia Resources Authority (Nonmajor Component Unit) refunded Lot 9, Lot 11, Lot 12, Lot 13, Lot 22, and 1993 Series A, and in-substance defeased 1993 Series B, 1993 Series C and Series 1994C. In order to accomplish these in-substance defeasances, the borrowers and the Authority jointly established escrow deposits, which, together with earnings from investments thereof, will be sufficient to pay principal and interest when due on these bonds. The refundings resulted in an economic gain of \$9,286,195 and reduced debt service payments by \$11,303,198. The amount of outstanding bonds payable related to bonds, which have been in-substance defeased or refunded, was \$21,455,000 at June 30, 2003.

GASBS No. 7, *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of June 30, 2003, there were \$308.8 million in bonds from Primary Government that have been refunded and defeased in-substance from the governmental activities column by placing existing assets and the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments. In addition, there were \$434.4 million in bonds outstanding considered defeased from the Component Units.

Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986, calculate and rebate arbitrage earnings to the Federal government. The U.S. Treasury has issued regulations on calculating the rebate amount and complying with the provisions of the Tax Reform Act of 1986. Governmental issuers must comply with the rebate regulations in order for their bonds to maintain

tax-exempt status. The regulations require the excess of the aggregate amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, to be rebated to the Federal government. Income earned on excess earnings is also subject to rebate. Rebate payments, if required, are due at least once every five years over the life of the bonds. Some bonds may be exempt from the rebate requirements if they qualify for certain regulatory exceptions. Governmental issuers may elect to pay a penalty in lieu of rebate. In either case if the issuer meets the applicable spending schedule, the issuer retains any arbitrage earnings. Rebate and penalty payments are calculated and paid as required by law on bond issues that do not qualify for an exception.

Amounts remitted to the Federal government for rebate liability are generally paid from earnings derived from the issue. However, if all proceeds (including earnings) have been expended and depending on the type of issue, it may be necessary to use project revenues or general or non-general fund appropriations to satisfy any rebate liability. During the year, the Commonwealth paid \$271,186 to the Federal government for rebate liability on Commonwealth general obligation bonds. The Virginia Public Building Authority made no rebate payments during the year. The Virginia College Building Authority remitted \$406,413 in rebate liability on its Series 1997 Pooled Bond Program.

Rebate liability on bonds of the Virginia Public School Authority (Major Component Unit) is payable from earnings on related bond funds and from local issuers whose local school bonds were purchased by the VPSA. During the year, \$844,788 was paid to the Federal government for rebate on various VPSA School Financing Bonds.

Capital Leases

The Commonwealth leases buildings and equipment under various agreements that are accounted for as capital leases. The lease agreements are for various terms and all leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

Gross minimum lease payments, together with the present value of the net minimum lease payments as of June 30, 2003, are shown in the following table (dollars shown in thousands). There were no capital lease amounts associated with business-type activities.

	Governmental Activities	Component Units
2004	\$ 30,378	\$ 5,986
2005	28,819	5,794
2006	27,981	5,540
2007	27,382	5,207
2008	26,666	5,185
2009-2013	126,095	26,015
2014-2018	98,308	16,762
2019-2023	21,280	4,831
Total Gross Minimum Lease Payments	386,909	75,320
Less: Amount Representing Executory Costs	10,892	7
Net Minimum Lease Payments	376,017	75,313
Less: Amount Representing Interest	126,894	22,949
Present Value of Net Minimum Lease Payments	<u>\$ 249,123</u>	<u>\$ 52,364</u>

At June 30, 2003, assets purchased under capital leases were included in depreciable capital assets as follows (dollars shown in thousands). The amounts are net of accumulated depreciation where applicable. For a portion of these assets, ownership will pass to the Commonwealth at the end of the lease term.

	Buildings	Equipment	Total
Governmental Activities:			
Gross Capital Assets	\$ 307,641	\$ 478	\$ 308,119
Less: Accumulated Depreciation	58,532	309	58,841
Total Governmental Activities	<u>\$ 249,109</u>	<u>\$ 169</u>	<u>\$ 249,278</u>
Component Units:			
Gross Capital Assets	\$ 46,968	\$ 21,172	\$ 68,140
Less: Accumulated Depreciation	5,799	8,983	14,782
Total Component Units	<u>\$ 41,169</u>	<u>\$ 12,189</u>	<u>\$ 53,358</u>

Notes Payable

Notes Payable consist of several items as shown in the following schedule (dollars shown in thousands):

Primary Government	
Transportation Note	\$ 12,325
Virginia Public Broadcasting Board Note	20,005
Aviation Note	3,627
Installment Notes	50,697
Total Primary Government	<u>86,654</u>
Component Units	
Virginia Public School Authority	161,640
University of Virginia	78,739
Virginia Polytechnic Institute and State University	78,715
Virginia Commonwealth University	56,965
Nonmajor Component Units	230,925
Installment Notes	17,844
Total Component Units	<u>624,828</u>
Total Notes Payable	<u>\$ 711,482</u>

The Transportation (Primary Government) Note listed above represents an interest free note payable to Fairfax County, Virginia, of \$4,325,000 which was issued pursuant to the State Revenue Bond Act, Article 5, Title 33.1, *Code of Virginia* to pay for the acquisition and construction of the Omer L. Hirst - Adelard L. Brault Expressway. This note is to be repaid on December 1, 2008. Additionally, the Virginia Department of Transportation (Primary Government) entered into an interest free note payable to Chesterfield County, Virginia, of \$8,000,000 for the repayment of the Powhite Parkway Extension Toll Road from surplus net revenues of the project prior to the retirement of all the bonds issued.

The Virginia Public Broadcasting Board (Primary Government) note listed above represents a loan agreement entered into with the Harrisonburg Industrial Development Authority for \$23,840,000. The purpose of the loan was to grant funds to Virginia's public television stations to assist with the cost of conversion to the Federal Communication Commission's new digital standard. The agreement was entered into February 27, 2001 and has a variable rate of interest. The General Assembly authorized these grants in Chapter 1073 of the 2000 Appropriation Act.

The Aviation Note listed above represents a loan agreement with the Virginia Resources Authority in the amount of \$6,600,000. The purpose of the loan was to finance and refinance grants-in-aid made to The Peninsula Airport Commission to provide funding for capital improvements at the Newport News/Williamsburg International Airport. The principal amount shall be paid semi-annually with the final payment due in 2017.

The Virginia Public School Authority (Major Component Unit) notes of \$161,640,000 are for the School Equipment Financing Notes Educational Technology program. The note proceeds were used to make grants to school divisions for the purchase of educational technology equipment. The notes will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund (Major Special Revenue Fund).

An additional amount of \$445,344,000 is comprised primarily of Higher Education (Component Unit) promissory notes with the Virginia College Building Authority (Nonmajor Component Unit) to finance the construction of various higher education facilities. The principal amount of \$436,050,000 with interest rates ranging from 3.0 percent to 6.0 percent shall be paid semi-annually. The final principal payment is due in 2028. The Virginia Biotechnology Research Park Authority (Nonmajor Component Unit) has two notes payable to private parties for \$699,198. The first note in the amount of \$125,000 and the second in the amount of \$574,198 is for the purchase of property. The interest on the first note is 7.0 percent, while the interest on the second is LIBO plus 3 percent (through October 1, 2005, at which time it becomes LIBOR plus 2 percent). The notes are due in 2005. The Virginia Equine Center (Nonmajor Component Unit) has a note payable in the amount of \$47,337 for a Chevrolet Tahoe to be used as a company car. The interest rate is 1.9 percent and the note is due in 2009.

The Higher Education (Component Unit) also has notes payable. The University of Virginia (Major Component Unit) has a note payable of \$479,310 with GE Capital Corporation for equipment and other working capital expenses. This is a five-year note with monthly payments beginning December 2003 at 5.78 percent. The College of William and Mary (Nonmajor Component Unit) has a note payable of \$5,406,331 with SunTrust Bank to partially finance the multi-year implementation of a new administrative and financial system. This note matures in 2008 and has an interest rate of 5.82 percent. Virginia State University (Nonmajor Component Unit) has a note payable of \$2,530,748, which is the result of a loan agreement with the U.S. Department of Housing and Urban Development to repair seven dormitories. The loan is to be repaid over 30 years at 3.0 percent interest per annum, and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. Norfolk State University (Nonmajor Component Unit) has a note payable of \$131,108, which is the result of an agreement with the City of Norfolk to purchase the Brambleton Center. The loan is payable in six full scholarships each year varying from \$4,593 to \$13,308 with the final amount due in 2019.

Installment notes have been entered into by agencies and institutions of the Commonwealth. These agreements, other than those in the component units and certain institutions of higher education, contain nonappropriation clauses indicating that continuation of the installment note is subject to funding by the General Assembly. Installment notes represent \$68,540,420 of the total outstanding debt of the Commonwealth.

Presented in the following tables are repayment schedules for installment notes.

Installment Purchases - Governmental Funds

June 30, 2003

Maturity	Principal	Interest	Total
2004	\$ 9,560,201	\$ 1,320,330	\$ 10,880,531
2005	7,999,345	973,323	8,972,668
2006	7,235,133	655,378	7,890,511
2007	4,079,759	430,082	4,509,841
2008	1,720,714	290,685	2,011,399
2009-2013	4,184,720	291,930	4,476,650
Total	<u>\$ 34,779,872</u>	<u>\$ 3,961,728</u>	<u>\$ 38,741,600</u>

Installment Purchases - Business Type Activities

June 30, 2003

Maturity	Principal	Interest	Total
2004	\$ 4,351,499	\$ 577,180	\$ 4,928,679
2005	4,538,005	390,674	4,928,679
2006	4,732,618	196,062	4,928,680
2007	2,164,875	46,238	2,211,113
2008	129,551	681	130,232
Total	<u>\$ 15,916,548</u>	<u>\$ 1,210,835</u>	<u>\$ 17,127,383</u>

Installment Purchases - Component Units

June 30, 2003

Maturity	Principal	Interest	Total
2004	\$ 6,358,274	\$ 638,563	\$ 6,996,837
2005	4,518,722	375,338	4,894,060
2006	3,149,132	213,225	3,362,357
2007	2,502,237	100,758	2,602,995
2008	1,272,241	20,431	1,292,672
2009-2013	43,394	75	43,469
Total	<u>\$ 17,844,000</u>	<u>\$ 1,348,390</u>	<u>\$ 19,192,390</u>

Lottery Prizes Payable

Lottery prizes are paid in 20, 25, 26, or 30 installments. The first installment is paid on the day the prize is claimed. The subsequent annual payments are funded with U.S. Treasury STRIPS purchased by the Virginia Lottery. For Life prizes payable represent estimated prizes payable monthly, quarterly or annually for the life of the winner based on life expectancy tables from the Virginia Bureau of Insurance, and funded with a pool of U.S. Treasury STRIPS.

Lottery prizes payable represent the future annual prize payments valued at cost plus accrued interest (present value of securities held to maturity) of the investment securities funding the payments.

Lottery prizes payable for the fiscal year ended June 30, 2003 are shown in the following table:

	Lottery	For Life	Total
Due within one year	\$ 56,137,220	\$ 1,144,272	\$ 57,281,492
Due in subsequent years	350,954,534	13,484,927	364,439,461
Total (present value)	407,091,754	14,629,199	421,720,953
Add:			
Interest to Maturity	173,721,245	14,276,802	187,998,047
Lottery Prizes Payable at Maturity	<u>\$ 580,812,999</u>	<u>\$ 28,906,001</u>	<u>\$ 609,719,000</u>

Tuition Benefits Payable

The Virginia College Savings Plan administers the Virginia Prepaid Education Program (VPEP). VPEP offers contracts which, for actuarially determined amounts, provide for guaranteed full future tuition payments at State higher education institutions. The contract provisions also allow the benefits to be used for private or out-of-state institutions at a prorated amount based upon the amounts charged by the State's higher education institutions.

At June 30, 2003, tuition benefits payable of \$1.2 billion have been recorded for the VPEP program on the balance sheet for the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for the VPEP program. In addition, a receivable in the amount of \$351.2 million has been recorded to reflect the actuarially determined present value of future payments anticipated from contract holders.

19. OTHER REVENUE

The following table (reported in thousands of dollars) summarizes Other Revenue for the fiscal year ended June 30, 2003.

	Assessments and Receipts for Support of Special Services	Fines, Forfeitures, Court Fees, Penalties, and Escheats	Receipts from Cities Counties, and Towns	Private Gifts, Grants, and Contracts	Sales of Property
Primary Government:					
General Fund	\$ 339	\$ 178,937	\$ 9,117	\$ 7	\$ 1,019
Major Special Revenue Funds:					
Commonwealth Transportation	20,377	8,966	15,104	-	1,998
Federal Trust	-	38	-	-	111
Literary	-	150,886	-	-	-
Major Enterprise Funds:					
Pocahontas Parkway	-	1,850	-	-	-
Nonmajor Governmental Funds	75,777	39,167	115,335	6,981	23,268
Nonmajor Enterprise Funds	-	9,505	-	-	-
Private Purpose	-	-	-	-	298
Pension Trust	-	-	-	-	-
Total Primary Government	<u>\$ 96,493</u>	<u>\$ 389,349</u>	<u>\$ 139,556</u>	<u>\$ 6,988</u>	<u>\$ 26,694</u>

	Contributions	Tobacco Master Settlement	Taxes	Other	Total Other Revenue
Primary Government:					
General Fund	\$ -	\$ 60,012	\$ -	\$ 107,170	\$ 356,601
Major Special Revenue Funds:					
Commonwealth Transportation	-	-	-	14,794	61,239
Federal Trust	-	-	-	74,690	74,839
Literary	-	-	-	-	150,886
Major Enterprise Funds:					
Pocahontas Parkway	-	-	-	-	1,850
Nonmajor Governmental Funds	-	-	-	66,498	327,026
Nonmajor Enterprise Funds	1,763	-	5,145	1,071	17,484
Private Purpose	-	-	-	94	392
Pension Trust	-	-	-	2,682	2,682
Total Primary Government	<u>\$ 1,763</u>	<u>\$ 60,012</u>	<u>\$ 5,145</u>	<u>\$ 268,849</u>	<u>\$ 994,849</u>

20. PRIZES AND CLAIMS

The following table summarizes Prizes and Claims Expense for the fiscal year ended June 30, 2003.

(Dollars in Thousands)

	<u>Insurance Claims</u>	<u>Lottery Prize Expense</u>	<u>Total Prizes and Claims</u>
Proprietary Funds:			
Major Enterprise Funds:			
State Lottery	\$ -	\$ 625,872	\$ 625,872
Unemployment Compensation	711,985	-	711,985
Nonmajor Enterprise Funds	106,682	-	106,682
Total Enterprise Funds	<u>\$ 818,667</u>	<u>\$ 625,872</u>	<u>\$ 1,444,539</u>
Internal Service Funds	<u>\$ 641,308</u>	<u>\$ -</u>	<u>\$ 641,308</u>

21. DEPRECIATION AND AMORTIZATION

The following table summarizes Depreciation and Amortization Expense for the fiscal year ended June 30, 2003.

(Dollars in Thousands)

	<u>Depreciation</u>	<u>Amortization</u>	<u>Total Depreciation and Amortization</u>
Business-type Activities:			
Major Enterprise Funds:			
State Lottery	\$ 6,546	\$ -	\$ 6,546
Virginia College Savings Plan	62	-	62
Pocahontas Parkway	8,740	306	9,046
Nonmajor Enterprise Funds	3,381	-	3,381
Total Enterprise Funds	<u>\$ 18,729</u>	<u>\$ 306</u>	<u>\$ 19,035</u>
Internal Service Funds	<u>\$ 16,470</u>	<u>\$ -</u>	<u>\$ 16,470</u>

22. OTHER EXPENSES

The following table summarizes Other Expenses for the fiscal year ended June 30, 2003.

(Dollars in Thousands)

	Grants and Distributions to Localities	Expendable Equipment	Other	Total Other Expenses
Proprietary Funds:				
Major Enterprise Funds:				
Virginia College Savings Plan	\$ -	\$ 17	\$ 4	\$ 21
Nonmajor Enterprise Funds	88	2,278	1,056	3,422
Total Enterprise Funds	<u>\$ 88</u>	<u>\$ 2,295</u>	<u>\$ 1,060</u>	<u>\$ 3,443</u>
Internal Service Funds	<u>\$ -</u>	<u>\$ 6,789</u>	<u>\$ 2,329</u>	<u>\$ 9,118</u>

23. OTHER NON-OPERATING REVENUE/EXPENSES

The following table summarizes Other Non-Operating Revenue/Expenses for the fiscal year ended June 30, 2003.

(Dollars in Thousands)

	Gain (Loss) on Sale of Capital Assets	Other	Total Non- Operating Revenue/ Expenses
Proprietary Funds:			
Major Enterprise Funds:			
State Lottery	\$ -	\$ 173	\$ 173
Virginia College Savings Plan	-	(37)	(37)
Nonmajor Enterprise Funds	-	124	124
Total Enterprise Funds	<u>\$ -</u>	<u>\$ 260</u>	<u>\$ 260</u>
Internal Service Funds	<u>\$ (246)</u>	<u>\$ (1,766)</u>	<u>\$ (2,012)</u>

24. TRANSFERS

The following table summarizes Transfers In and Transfers Out as of June 30, 2003 (in thousands of dollars).

Transfers Out (Reported In):	Transfers In (Reported In):				
	General Fund	Commonwealth Transportation Fund	Federal Trust Fund	Literary Fund	Nonmajor Governmental Funds
Primary Government					
General Fund	\$ -	\$ 135,642	\$ 36	\$ -	\$ 242,692
Major Special Revenue Funds:					
Commonwealth Transportation	413,192	-	2,241	-	231,196
Federal Trust	3,308	9,376	-	-	2,031
Major Enterprise Funds:					
State Lottery	375,201	-	-	12,304	-
Virginia College Savings Plan	106	-	-	-	-
Unemployment Compensation	-	-	12,860	-	-
Nonmajor Governmental Funds	96,253	236	1,509	-	16,110
Nonmajor Enterprise Funds	68,202	-	35	16	4,823
Internal Service Funds	15,545	-	-	-	82
Total Primary Government	\$ 971,807	\$ 145,254	\$ 16,681	\$ 12,320	\$ 496,934

Transfers are used to (1) move revenues from the fund that the *Code of Virginia* or budget requires to collect them to the fund that the *Code of Virginia* or budget requires to expend them; (2) move receipts restricted for debt service from the funds holding the resources to the debt service fund as principal and interest payments become due; (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; and (4) to reimburse the General Fund for expenses incurred on behalf of nongeneral funds.

During the fiscal year, the following significant transfers were made that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer.

- The Commonwealth Transportation Trust Fund returned sales and use taxes of approximately \$295.6 million to the General Fund since Federal Reimbursement Anticipation Notes have replaced the sales and use tax funding for transportation projects.
- Various non-general funds transferred approximately \$128.2 million to the General Fund for disbursements appropriated by Chapter 1042, 2003 Acts of Assembly.
- Various non-general funds transferred approximately \$44.9 million to the General Fund resulting from reduced retirement and post-

employment benefit contributions disbursements appropriated by Chapter 1042, 2003 Acts of Assembly.

- The Other Special Revenue Fund transferred \$18.5 million in unspent balances resulting from Intergovernmental Transfers to the General Fund disbursements appropriated by Chapter 1042, 2003 Acts of Assembly.
- Insurance Reserves of \$8.2 million were transferred to the General Fund for disbursements appropriated by Chapter 1042, 2003 Acts of Assembly.
- The Fleet Management Internal Service Fund transferred \$4 million to the General Fund since no new vehicles were purchased.
- The Department of Motor Vehicles transferred increased fees of \$4 million to the General Fund as required by Chapter 1042, 2003 Acts of Assembly.
- The State Corporation Commission transferred \$2 million to the General Fund since the General Assembly deferred consumer training related to energy deregulation.

Nonmajor Enterprise Funds	Internal Service Funds	Total Primary Government
\$ 6,920	\$ -	\$ 385,290
-	283	646,912
201	-	14,916
-	-	387,505
-	-	106
-	-	12,860
107	64	114,279
-	-	73,076
-	-	15,627
<u>\$ 7,228</u>	<u>\$ 347</u>	<u>\$ 1,650,571</u>

25. SPECIAL ITEMS

Special items are significant transactions or other events that are either unusual in nature or infrequent in occurrence and within management's control. During the fiscal year, the Hampton Roads Sanitation District (Nonmajor Component Unit) recognized a \$6.9 million loss resulting in adopting a post-retirement health benefit for qualifying employees beginning after July 1, 2002. The Virginia Biotechnology Research Park (Nonmajor Component Unit) recognized a \$366 thousand loss due to a dispute related to grant funds received for construction costs brought by the Economic Development Administration.

26. ON-BEHALF PAYMENTS - HIGHER EDUCATION (COMPONENT UNIT)

Higher Education recognized various foundation and association on-behalf payments for fringe benefits and salaries during fiscal year 2003 totaling \$1,480,987. This activity was recorded as General Revenue - Unrestricted Grants and Contributions in the amount of \$808,519; Program Revenue - Operating Grants and Contributions in the amount of \$603,082; and Program Revenue - Charges for Services in the amount of \$69,386, with corresponding expenditures.

27. CHANGE IN ACCOUNTING PRINCIPLE

Primary Government

During fiscal year 2003, the Commonwealth elected to change the capitalization threshold for reporting capital assets. The Commonwealth increased the capitalization threshold from \$5,000 for all classes of assets to \$50,000 for equipment and \$100,000 for land, buildings, infrastructure, and construction in progress. The cumulative effect of this change in accounting principle decreased the capital asset balance at the beginning of the year by \$201.1 million.

28. RESTATEMENT OF BEGINNING BALANCES

The Government-wide beginning balance restatements resulted from the following:

- Governmental activities have been restated for a change in methodology related to deferred tax calculations resulting in an increase in beginning net assets of \$398.7 million (see Note 1.P.)
- Governmental activities have been restated for capital asset threshold changes resulting in a

decrease in beginning net assets of \$201.1 million and correction of prior year errors of \$60.0 million (see Notes 1.M., 9, and 27).

- Governmental activities have been restated due to corrections of prior year errors resulting in a decrease in beginning net assets of \$3.5 million.

The various individual fund amounts have been restated due to the following:

- The General Fund restatement of \$367.5 million is due to a change in methodology related to deferred tax calculations. The General Fund restatement is \$31.2 million less than the governmental activities restatement amount. While estimated underpayments that exceed estimated overpayments are reported as receivables on both statements, revenue is deferred on the fund statement but recognized on the government-wide statement (see Note 1.P.).
- The Special Revenue Commonwealth Transportation Fund has been restated due to a prior year error.
- The Special Revenue Dedicated and Special Revenue Other Funds have been restated due to the fact that the prior year Main Street Station Property Agency Fund and the Emergency Management Donation Agency Fund should have been reported in the Dedicated and Other Funds, respectively.
- The Investment Trust Fund was restated due to the improper account classifications.
- The University of Virginia amount has been restated due to the correction of prior year errors, exclusion of equipment not owned by the University, and the write-off of investments.
- Nonmajor Higher Education Institution amounts have been restated for various reasons, primarily due to corrections related to the implementation of the new financial reporting model.

Beginning Balance Restatement

(Dollars in Thousands)

	Balance as of June 30, 2002	Change in Principle	Correction of Prior Year Errors	Balance June 30, 2002 as restated
Government-wide Activities:				
Primary Government:				
Governmental Activities	\$ 10,451,350	\$ (201,075)	\$ 335,156	\$ 10,585,431
Business-type Activities	815,513	-	-	815,513
Total Primary Government	<u>\$ 11,266,863</u>	<u>\$ (201,075)</u>	<u>\$ 335,156</u>	<u>\$ 11,400,944</u>
Component Units	<u>\$ 8,638,751</u>	<u>\$ -</u>	<u>\$ (24,034)</u>	<u>\$ 8,614,717</u>
Major Governmental Funds:				
General Fund	\$ (216,697)	\$ -	\$ 367,452	\$ 150,755
Special Revenue Funds:				
Commonwealth Transportation Fund	1,064,716	-	(1,000)	1,063,716
Federal Trust Fund	15,286	-	-	15,286
Literary Fund	424,394	-	-	424,394
Total Major Governmental Funds	<u>1,287,699</u>	<u>-</u>	<u>366,452</u>	<u>1,654,151</u>
Nonmajor Governmental Funds:				
Special Revenue Funds:				
Dedicated Special Revenue Fund	178,781	-	1,499	180,280
Other Special Revenue Fund	343,952	-	420	344,372
Virginia Land Conservation Foundation Fund	3,034	-	-	3,034
Virginia State Parks Foundation	322	-	-	322
Virginia Historical Preservation Foundation	4	-	-	4
Total Special Revenue	<u>526,093</u>	<u>-</u>	<u>1,919</u>	<u>528,012</u>
Debt Service Funds:				
Primary Government	38,728	-	-	38,728
Virginia Public Building Authority	45	-	-	45
Total Debt Service	<u>38,773</u>	<u>-</u>	<u>-</u>	<u>38,773</u>
Capital Project Funds:				
Primary Government	9,083	-	-	9,083
Virginia Public Building Authority	43,614	-	-	43,614
Total Capital Projects	<u>52,697</u>	<u>-</u>	<u>-</u>	<u>52,697</u>
Permanent Funds:				
Commonwealth Health Research Fund	24,192	-	-	24,192
Mental Health Endowment Funds	262	-	-	262
Virginia Arts Foundation	142	-	-	142
Total Permanent Funds	<u>24,596</u>	<u>-</u>	<u>-</u>	<u>24,596</u>
Total Non-Major Funds	<u>642,159</u>	<u>-</u>	<u>1,919</u>	<u>644,078</u>
Total Governmental Funds	<u>\$ 1,929,858</u>	<u>\$ -</u>	<u>\$ 368,371</u>	<u>\$ 2,298,229</u>

**Beginning Balance Restatement
Fiduciary Funds**

(Dollars in Thousands)

	Balance as of June 30, 2002	Correction of Prior Year Errors	Balance June 30, 2002 as restated
Private Purpose Funds			
Unclaimed Property	\$ 35,390	\$ -	\$ 35,390
Virginia College Savings Plan	1,162,416	-	1,162,416
Loan Servicing Reserve	545	-	545
Edvantage Reserve	1,539	-	1,539
Virginia Farm Loan Revolving	5,666	-	5,666
Miscellaneous Trust	66	-	66
Total Private Purpose Funds	1,205,622	-	1,205,622
Pension Trust Funds			
Virginia Retirement System	32,447,511	-	32,447,511
State Police Officers' Retirement System	423,232	-	423,232
Judicial Retirement System	234,208	-	234,208
Virginia Law Officers' Retirement System	350,063	-	350,063
Political Appointees	1,891	-	1,891
Other Employment Benefits:			
Retiree Health Insurance Credit	76,172	-	76,172
Group Life	838,568	-	838,568
Virginia Sickness and Disability Program	57,898	-	57,898
Volunteer Firefighters and Rescue Squad Workers	187	-	187
Total Pension Trust Funds	34,429,730	-	34,429,730
Investment Trust Funds			
Local Government Investment Pool (LGIP)	\$ 2,280,347	\$ (64)	\$ 2,280,283
State Non-Arbitrage Pool (SNAP)	1,147,983	-	1,147,983
SNAP Individual Investment Accounts	14,466	-	14,466
Total Investment Trust Funds	\$ 3,442,796	\$ (64)	\$ 3,442,732

**Beginning Balance Restatement
Component Units**

(Dollars in Thousands)

	Balance as of June 30, 2002	Correction of Prior Year Errors	Balance June 30, 2002 as restated
Major Component Units			
Virginia Housing Development Authority	\$ 1,344,010	\$ -	\$ 1,344,010
Virginia Public School Authority	25,684	-	25,684
University of Virginia	3,169,558	937	3,170,495
Virginia Polytechnic Institute and State University	419,381	-	419,381
Virginia Commonwealth University	644,193	-	644,193
Nonmajor Component Units			
Virginia Economic Development Partnership	1,544	-	1,544
Virginia Outdoors Foundation	8,621	-	8,621
Virginia Port Authority	295,769	-	295,769
Virginia Resources Authority	809,006	-	809,006
Virginia Tourism Authority	1,077	-	1,077
Virginia Tobacco Settlement Foundation	28,249	-	28,249
Tobacco Indemnification and Community Revitalization Commission	34,323	-	34,323
Hampton Roads Sanitation District Commission	347,958	-	347,958
Virginia Biotechnology Research Park Authority	12,356	-	12,356
Virginia Small Business Financing Authority	32,909	-	32,909
Virginia School for the Deaf and Blind Foundation	2,536	-	2,536
A. L. Philpott Manufacturing Extension Partnership	489	-	489
Virginia Equine Center Foundation	2,698	-	2,698
Certified Nursing Facility Education Initiative	505	-	505
College of William and Mary	270,395	(1,707)	268,688
Virginia Military Institute	69,585	-	69,585
Virginia State University	72,954	(7,175)	65,779
Norfolk State University	37,603	976	38,579
Mary Washington College	77,515	(5,342)	72,173
James Madison University	208,421	-	208,421
Radford University	92,199	750	92,949
Old Dominion University	164,048	5,584	169,632
George Mason University	206,373	(8,477)	197,896
Virginia Community College System	386,946	(2,316)	384,630
Christopher Newport University	58,060	625	58,685
Longwood University	49,417	(46)	49,371
Southwest Virginia Higher Education Center	8,066	-	8,066
Roanoke Higher Education Authority	12,265	-	12,265
Innovative Technology Authority	19,468	-	19,468
Virginia College Building Authority	(275,430)	(7,843)	(283,273)
Total Nonmajor Component Units	3,035,925	(24,971)	3,010,954
Total Component Units	\$ 8,638,751	\$ (24,034)	\$ 8,614,717

The restatements of Agency Fund beginning balances are summarized below:

- The Mental Health Patient and Mental Health Nonpatient Trust Funds were combined in prior years. These two agency funds are now reported separately.
- The Main Street Station Property Fund, the Emergency Management Donation Fund, and the Virginia Department of Transportation Fund have been eliminated from the Agency Funds and are now reported in Special Revenue Funds.
- The Department of State Police Fund has been restated due to prior year errors.
- The Aviation Fund has been restated due to an improper account classification.

**Beginning Balance Restatement
Agency Funds**

(Dollars in Thousands)

	Balance as of July 1, 2002	Correction of Prior Year Errors	Balance July 1, 2002 as restated
Agency Funds			
Funds for the Collection of Taxes and Fees	\$ 178,758	\$ -	\$ 178,758
Employee Benefits Fund	2,835	-	2,835
Mined Land Deposits Fund	10,223	-	10,223
Deposits of Insurance Carriers Fund	372,245	-	372,245
Inmate and Ward Fund	4,662	-	4,662
Child Support Collections Fund	16,956	-	16,956
Mental Health Patient Trust Fund	2,372	(19)	2,353
Mental Health NonPatient Trust Fund	-	19	19
Optional Life Insurance Fund	3,050	-	3,050
Comptroller's Debt Setoff Fund	1,156	-	1,156
Main Street Station Property Fund	1,499	(1,499)	-
Unclaimed Property of Other States	3,028	-	3,028
Legal Settlement Fund	1,019	-	1,019
Consumer Services Fund	489	-	489
Emergency Management Donation Fund	420	(420)	-
Department of State Police Fund	73	237	310
Aviation Fund	50	64	114
Virginia Department of Transportation Fund	39	(39)	-
Virginia School for the Deaf and Blind Fund	33	-	33
Woodrow Wilson Rehabilitation Center Fund	6	-	6
Dog and Cat Sterilization Fund	2	-	2
Milk Commission Fund	1	-	1
Total Agency Funds	<u>\$ 598,916</u>	<u>\$ (1,657)</u>	<u>\$ 597,259</u>

29. DEFICIT NET ASSETS

The State Lottery Department (Major Enterprise Fund) and Department of Alcoholic Beverage Control (Nonmajor Enterprise Fund) ended the year with deficit net assets of \$2.1 million, and \$5.6 million respectively. This was solely attributable to the net pension obligation resulting from GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. Since the Commonwealth is the employer, the agencies do not report this liability in their individually published financial statements.

The Virginia College Savings Plan (Major Enterprise Fund) ended the year with a deficit net assets balance of \$232.7 million. This is attributable to a projected unfunded actuarial liability caused primarily by unprecedented tuition increases in recent years as well as the expectation of additional significant increases in both university and community college tuitions for at least the next two years. An additional factor was the downturn in the stock market in the prior year, which resulted in a decrease in the long-term investment return assumption used by the actuary. The Board will continue to address this issue by working with the actuary and investment consultant to continually monitor the investment allocation ensuring the Plan has proper diversification to enhance long-term investment returns. It remains the Board's intention to reduce the actuarial deficit over time by creating an actuarial reserve and implementing appropriate premium pricing in any future enrollment periods.

The Pocahontas Parkway Association (Major Enterprise Fund) ended the year with a deficit net assets balance of \$75.3 million. This is attributable to debt service and operating expenses exceeding revenues and a deficit in beginning net assets.

The eVA Procurement System (Nonmajor Enterprise Fund) and Engineering Services (Internal Service Fund) ended the year with a deficit net assets balance of \$1.7 million and \$111,988, respectively. This is attributable to operating expenses exceeding revenues due to start up

costs and the net pension obligation resulting from GASB Statement No. 27, as previously explained.

The Health Care (Internal Service Fund) ended the year with a deficit net assets balance of \$20.9 million. The deficit is attributable to increased health care cost.

Maintenance and Repair (Internal Service Fund) ended the year with a deficit net assets balance of \$1.9 million due to revenue refunds to agencies which were mandated by the Department of Planning and Budget.

The Risk Management (Internal Service Fund) ended the year with a deficit net assets balance of \$137.0 million. The deficit was the result of estimated claims payable exceeding the available equity in the fund. Claims are paid on a pay-as-you-go basis. To the extent that claims exceed current resources, they will ultimately become a liability of the fund from which the claim originated.

The Virginia College Building Authority (Nonmajor Component Unit) ended the year with a deficit net assets balance of \$387.2 million. This deficit occurs because the Authority issues 21st Century and Equipment bonds subject to future appropriations from the General Fund of the Commonwealth without any other security.

30. ENDOWMENTS

Donor restricted endowments reside primarily within the higher education institutions and the Virginia Museum of Fine Arts. The net appreciation available for expenditure is \$557,765,390, and of this amount, \$551,947,661 is reported as restricted net assets and \$5,817,729 is reported as unrestricted net assets. The *Code of Virginia* authorizes acceptance of donations. The governing boards of these entities and the donor agreements determine whether net appreciation can be spent and the accepted spending rate. These policies are entity specific and vary with each institution.

31. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (reported in thousands) summarizes specific cash flows for the fiscal year ended June 30, 2003.

	State Lottery	Virginia College Savings Plan	Pocahontas Parkway	Unemployment Compensation Fund
Cash Flows Resulting from:				
Payments for Prizes, Claims, and Loss Control:				
Lottery Prizes	\$ (695,060)	\$ -	\$ -	\$ -
Claims and Loss Control	-	-	-	(718,097)
Total	<u>\$ (695,060)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (718,097)</u>
Other Operating Revenues:				
Other Operating Revenue	\$ -	\$ -	\$ 2,400	\$ -
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,400</u>	<u>\$ -</u>
Other Operating Expenses:				
Payments for Contractual Services	\$ (27,242)	\$ (2,070)	\$ -	\$ -
Other Operating Expenses	-	(4)	(1,098)	-
Total	<u>\$ (27,242)</u>	<u>\$ (2,074)</u>	<u>\$ (1,098)</u>	<u>\$ -</u>
Other Noncapital Financing Receipt Activities:				
Advances/Contributions from the Commonwealth	\$ -	\$ -	\$ -	\$ -
Receipts from Taxes	-	-	-	-
Other Noncapital Financing Receipt Activities	1,252	-	-	-
Total	<u>\$ 1,252</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other Noncapital Financing Disbursement Activities:				
Repayments of Advances/Contributions from the Commonwealth	\$ -	\$ -	\$ -	\$ -
Other Noncapital Financing Disbursement Activities	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other Capital and Related Financing Disbursement Activities:				
Disbursements for Retainage Payable	\$ -	\$ -	\$ (8,800)	\$ -
Disbursements for Capital Expenditures	-	-	(4,760)	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13,560)</u>	<u>\$ -</u>

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ -	\$ (695,060)	\$ -
(110,219)	(828,316)	(629,275)
<u>\$ (110,219)</u>	<u>\$ (1,523,376)</u>	<u>\$ (629,275)</u>
\$ 8,424	\$ 10,824	\$ 10
<u>\$ 8,424</u>	<u>\$ 10,824</u>	<u>\$ 10</u>
\$ (32,507)	\$ (61,819)	\$ (109,486)
(1,279)	(2,381)	(39)
<u>\$ (33,786)</u>	<u>\$ (64,200)</u>	<u>\$ (109,525)</u>
\$ -	\$ -	\$ 355
112,286	112,286	-
33	1,285	-
<u>\$ 112,319</u>	<u>\$ 113,571</u>	<u>\$ 355</u>
\$ (2,534)	\$ (2,534)	\$ (400)
(103)	(103)	(1,024)
<u>\$ (2,637)</u>	<u>\$ (2,637)</u>	<u>\$ (1,424)</u>
\$ -	\$ (8,800)	\$ -
-	(4,760)	-
<u>\$ -</u>	<u>\$ (13,560)</u>	<u>\$ -</u>

32. TOBACCO SETTLEMENT

On November 23, 1998, 46 states' Attorneys General and the major tobacco companies signed a proposed settlement that reimburses states for smoking-related medical expenses paid through Medicaid and other health care programs. Virginia could receive approximately \$4.1 billion over the next 25 years. The settlement was approved in a Consent Decree in December 1998. On March 29, 1999, the General Assembly enacted a law approving the establishment of the Virginia Tobacco Indemnification and Community Revitalization Commission, in compliance with the Consent Decree, to help communities in Virginia hurt by the decline of tobacco.

The Commission was established for the purposes of determining the appropriate recipients of moneys in the Tobacco Indemnification and Community Revitalization Fund. The moneys are to be used to provide payments to tobacco farmers as compensation for the tobacco equipment and barns and lost tobacco production opportunities associated with a decline in quota. The moneys are also to be used to revitalize tobacco dependent communities.

The General Assembly also created The Virginia Tobacco Settlement Foundation (Foundation). The purpose of the Foundation is to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund. The Foundation will also be responsible for distributing monies for the purposes provided in the legislation. Disbursements can be made to assist in financing efforts to restrict the use of tobacco products by minors, through educational and awareness programs describing the health effects of tobacco use on minors, and laws restricting the distribution of tobacco products to minors. The Virginia Tobacco Indemnification and Community Revitalization Commission and the Virginia Tobacco Settlement Foundation are included in the Comprehensive Annual Financial Report as governmental component units.

Additionally, the General Assembly created two special non-reverting funds. The Tobacco Settlement monies will be deposited to these funds and the General Fund. Fifty percent of the Settlement monies will be deposited into the Tobacco Indemnification and Community Revitalization Fund. Ten percent of the Settlement monies will be deposited into the Virginia Tobacco Settlement Fund. The remaining 40 percent will be deposited to the General Fund.

33. PUBLIC-PRIVATE PARTNERSHIP

The Department of Taxation (Department) has entered into a partnership agreement with the American Management Systems, Inc. (AMS). The purpose of this partnership is to finance the Department's technology needs. The agreement stipulates that AMS will be paid 90 percent of the new revenue generated from the system enhancements in fiscal year 2003, even if this amount is insufficient to cover the total contract cost. Beginning in fiscal year 2004, this percentage will decrease to 70 percent. Accordingly, AMS has created a dynamic environment that has made it easier for taxpayers to understand and comply with Virginia's tax

requirements. As of June 30, 2003, the Department has paid AMS \$110.9 million towards the \$168.2 million contract cost.

34. INTERGOVERNMENTAL TRANSFERS

In making payments under an approved Medicaid State Plan per Title XIX of the Social Security Act, Federal regulation allows states to pay different rates to different classes of providers. The Virginia Medicaid State Plan allows the Commonwealth, without violating the upper payment limit regulation, to make enhanced Medicaid payments to nursing homes, hospitals and clinics owned and operated by local governments. Payments may also be made to state owned hospitals and health clinics. These enhanced payments are capped by an upper payment limit. The Department of Medical Assistance Services (DMAS) plans to make these enhanced payments to locally owned hospitals, health clinics and nursing homes as well as state owned health clinics using "intergovernmental transfers." The fiscal year 2003 activity is reported in Other Special Revenue (nonmajor). In fiscal year 2004 the transfers will take place between the Commonwealth and one or more localities that own or operate Medicaid certified nursing homes, health clinics or hospitals. Transfers will also take place between DMAS and the Virginia Department of Health, which operates health clinics in the Commonwealth. The governmental entities will provide funds to the Commonwealth, which will be matched with Federal Medicaid dollars. The Commonwealth will then pay the locally owned nursing homes, health clinics and hospitals as well as the applicable state health clinics, for services rendered during fiscal year 2004. If the intergovernmental transfers take place in fiscal year 2004, as planned, the transaction could result in a net gain to the participating localities and the Commonwealth in the amount of approximately \$560,000 and \$11,000,000, respectively. The transaction is contingent upon intergovernmental agreements being signed between the Commonwealth and the participating localities.

35. CONTINGENCIES

A. Grants and Contracts

The Commonwealth has received Federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable Federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a Federal audit may become a liability of the Commonwealth.

Institutions of higher education (Component Units) and other State agencies are required to comply with various Federal regulations issued by the Office of Management and Budget, if such agencies are recipients of Federal grants, contracts, or other sponsored agreements. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of

related direct and indirect charges pursuant to such agreements. It is believed that the ultimate disallowance pertaining to these regulations, if any, will be immaterial to the overall financial condition of the Commonwealth.

The U.S. Department of Health and Human Services (DHHS) Office of the Inspector General conducted a review and indicated that the Commonwealth's Statewide Indirect Cost Allocation Plan rates have allowed over-recoveries in the Internal Service Funds. The U.S. DHHS has not yet audited the 2004 cost allocation plan, which is based on state fiscal year 2002 data. The Commonwealth believes this liability has the potential to total \$947,801 as of June 30, 2003.

Virginia's combined overpayment and underpayment food stamp error rate for federal fiscal year 2002 was 6.74 percent. The national average combined error rate was 8.26 percent. States whose error rate exceeds the national average are subject to a penalty. Since Virginia's combined error rate was below the national average, liabilities of \$7.2 million were waived. The Commonwealth is subject to a cumulative potential liability of \$3.0 million during the period beginning October 1, 2002, through September 30, 2005. In addition, the Department is required to budget \$545,423 in fiscal year 2004 for activities that will help reduce the error rate in future years.

B. Litigation

The Commonwealth is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations, some involving substantial amounts. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the Commonwealth in respect to the various proceedings; however, it is believed that any ultimate liability resulting from these suits or investigations will not have a material, adverse effect on the financial condition of the Commonwealth.

C. Subject to Appropriation

Both the primary government and the discretely presented component units enter into agreements and issue debt secured solely by future appropriations from the General Fund of the Commonwealth. The primary government has leases and other agreements of such debt of \$1.2 billion. The discretely presented component units have such debt of \$448.5 million.

36. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT

Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, issued May 2002, will be effective for the fiscal year ending June 30, 2004. This Statement

provides additional guidance regarding the inclusion of certain organizations as component units. Generally, it requires an organization to be reported as a component unit if the organization raises and holds economic resources for the direct benefit of the primary government, even if the primary government is not financially accountable for the organization. As a result, the Commonwealth will be required to include selected affiliated foundations in its financial statements. The Commonwealth is currently in the process of determining foundations to be included.

37. SUBSEQUENT EVENTS

Component Units

Subsequent to year-end, the Virginia Resources Authority (Authority) issued a total of \$15,555,000 in Series 2003C Water and Sewer Revenue Bonds with interest rates ranging from 2.0 to 4.25 percent. The Authority also issued \$650,000 in Series 2003D Water and Sewer System Revenue Bonds with interest rates of 2.0 percent.

In July 2003, the Virginia Housing Development Authority redeemed \$3,384,170 in Multi-Family Housing Bonds and \$48,740,000 in Commonwealth Mortgage Bonds.

In August 2003, the Virginia Housing Development Authority sold \$147,450,000 in Rental Housing Bonds, 2003 Series C/D/E.

In September 2003, the Virginia Housing Development Authority redeemed an additional \$148,675,000 in Commonwealth Mortgage Bonds.

In November 2003, the Virginia Public School Authority issued \$190,645,000 in School Financing Bonds (1997 Resolution), Series 2003C to purchase local school bonds to finance capital projects for public schools.

In November 2003, the University of Virginia issued \$100,000,000 Commercial Paper General Revenue Pledge Notes consisting of tax-exempt series (the Series 2003A Notes) and a taxable series (the Series 2003B Notes). The notes will be issued from time to time to temporarily finance capital projects.

In November 2003, the Virginia College Building Authority issued \$115,715,000 in Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2003A to finance capital projects at various higher education institutions.

In December 2003, the Virginia Public School Authority issued \$286,670,000 in School Financing Bonds (1997 Resolution), Series 2003 D to purchase local school bonds to finance capital projects for public schools.

